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August 19, 1991

Pensions & Investments

The Newspaper of Corporate and Institutional Investing

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AT DEADLINE

Doug Crow lands new job

Douglas Crow, former managing director of benefit plan assets and assistant treasurer at EDS, Dallas, joined Tropicana Energy in Dallas as vice president-finance and controller.

Mr. Crow resigned abruptly from EDS in March 1990. Later, a former EDS employee filed suit, alleging Mr. Crow and other EDS treasury officials engaged in numerous illegal activities while running the EDS pension fund, including conflict-of-interests transactions, insider trading, misuse of corporate funds and falsification of documents.

Panel accepts golf study

Texas' Pension Review Board accepted the outside study it had ordered on the investment process and guidelines of two golf course investments made by the Houston Municipal Employees Pension System, but took no action because the study arrived too late for board members to review.

The study follows criticism by the City Council over the developer — BSL Golf Corp. — borrowing $7 million from the fund to use for its equity stake.

The study was conducted by Russell-Zisler Inc.

Bell Atlantic alters benefits

Bell Atlantic is implementing benefit changes for retirees beginning in 1994 that will increase cost-sharing expenses for retirees who retire after 1991; freeze the size of the sickness death benefit; and increase the minimum-discounted pension age to 60 from 55 over an eight-year period.

In addition, the company is offering retirement incentives for 3,500 salaried employees who retire by Dec. 15.

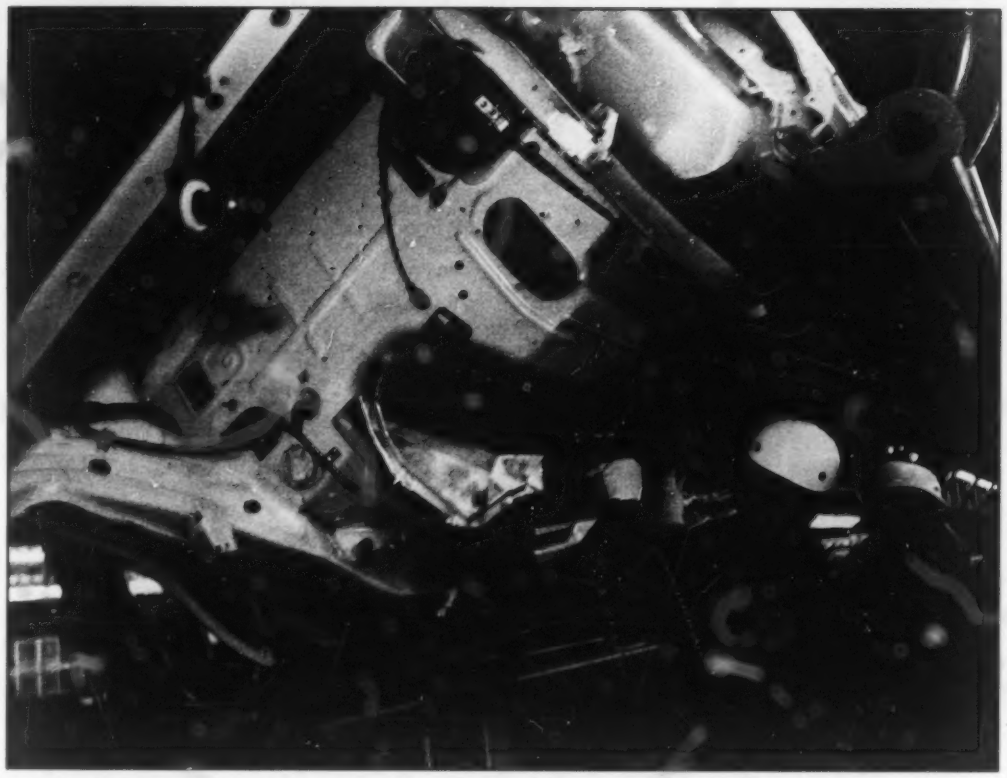
A Bell spokesman said the

Continued on page 34

INSIDE

A matter of concentration

In the past two years, Halliburton executives have diversified the company's stable value fund from 100% GICs to less than 50% GICs — an action other sponsors now are expected to follow. Page 3.



Chrysler's proposal to contribute stock to its pension fund was some of the better news for the PBGC.

PBGC rides roller coaster

Some woes ease but others grow

By Joel Chernoff

WASHINGTON — The Pension Benefit Guaranty Corp.'s hopes of avoiding financial disaster have been riding a roller coaster.

The PBGC won a key concession during the battle for Pan Am Corp. assets, and agency officials are encouraged that Chrysler Corp. will contribute stock to its pension plans, which are underfunded by $3.6 billion.

But despite being buoyed by those actions, a PBGC attempt to force The LTV Corp. to make contributions to its three underfunded pension plans is in jeopardy of scuttling the company's reorganization plans. Plus, New Valley Corp. (formerly Western Union Corp.) announced it is discussing transferring its pension plans, underfunded by $390 million, to the PBGC.

As a result, losses still are looming for the deficit-plagued agency.

Already saddled with a $2 billion deficit, the agency's most pessimistic scenario shows the deficit soaring to $11.4 billion by 2000. But PBGC officials acknowledge that scenario assumes a relatively robust economy and in-

See **PBGC** *on page 32*

Big funds participate in AMI financing

By Marlene Givant Star

DALLAS — American Medical International Inc., among the last big leveraged buy-outs of the 1980s, will issue $175 million of senior subordinated notes in one of the few public junk bond offerings so far this year.

AMI also will issue 16.2 million shares of common stock.

The offering was expected to be priced late last week.

Of the common stock, which will be issued by American Medical Holdings Inc., $92 million worth will be placed privately at the public market price with GKH Private, a Chicago-based partnership, and MB L.P. I, a partnership affiliated with The First Boston Corp., the lead manager of the offerings. The two partnerships acquired AMI less than two years ago in a $1.67 billion LBO transaction valued at $3.09 billion in cash and debt assumption.

GKH Private, a $550 million private equity fund — whose pension investors include Los Angeles County, Boeing Co., New York State & Local Retirement and General Motors Corp. — will own 32.4% of AMI after the offerings and private sale of shares.

Bob Hinckley, assistant press secretary for New York Comptroller Edward V. Regan, who oversees the New York State & Local Retirement Systems, said the $50 million stake in GKH Private is "one of our smaller LBO investments. Of that, $12.5 million has

See **AMI** *on page 31*

Buying American

U.S.-based firms score in foreign arena

By Margaret Price

American pension funds increasingly are hiring U.S. money managers, rather than non-U.S. ones, to invest their foreign assets.

At the same time, the pool of such managers is widening.

Data from the Tracker service of Eager & Associates, Louisville, Ky., underscore the grim news for non-U.S.-based international managers. From a high of 47.1% of all international hires by U.S. sponsors in the year ended June 1988, non-U.S. firms claimed only a 23.2% share in the year ended June 1990.

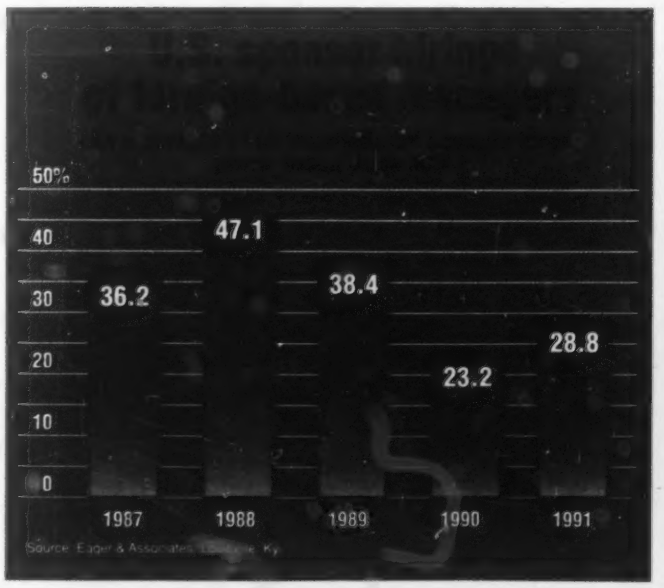
While foreigners' share crept up to 28.8% of hires for the year ended June 1991, that modest rise doesn't reverse the trend, believes Glenn Davis, a partner in Eager & Associates.

Experts cite a host of cultural and professional reasons to explain the market share, ranging from a diminishing sense of excitement by pension officials in hiring a foreign manager — and making visits abroad — to often easier communications in a more convenient time zone.

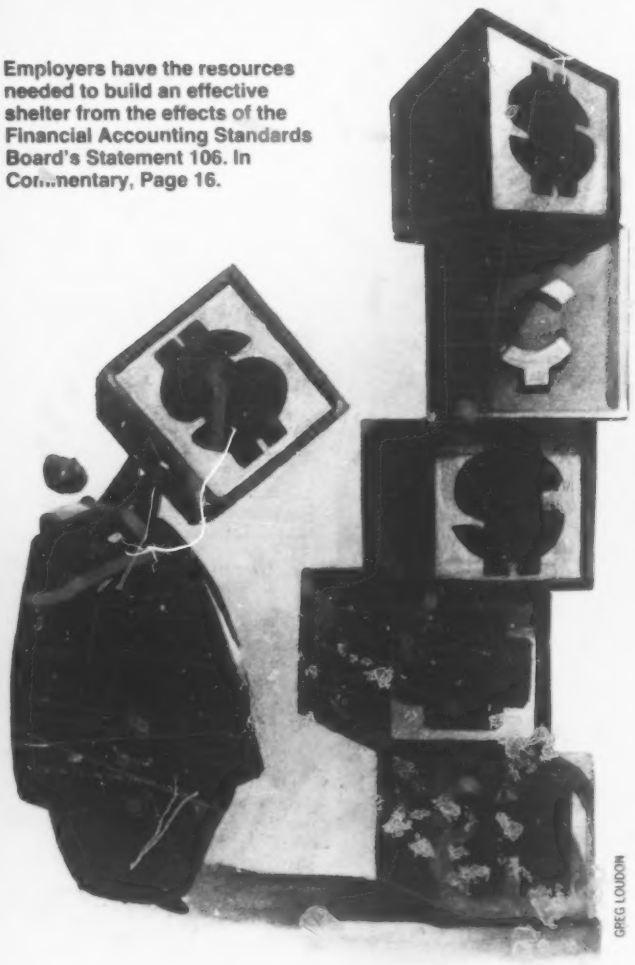
Moreover, U.S. money managers are widely believed to lead the world in portfolio management theories and technologies, a number of which are used in international investing.

Quite a few U.S.-based interna-

See **Managers** *on page 31*



NEWS DIGEST



GREG LOUDON

Employers have the resources needed to build an effective shelter from the effects of the Financial Accounting Standards Board's Statement 106. In Commentary, Page 16.

CREF participants have been slow to transfer assets to outside vendors, but the managers say they're willing to wait for the business. Page 13.

SPECIAL REPORT: PIPER

Surging high-yield prices propelled the performance of some top-notch bond portfolios, while mortgage funds were among the best real estate investments. Page 19.

FINANCING

American Medical International's issue is one of the few public offerings of junk bonds to come to market this year. Page 1.

INTERNATIONAL

U.S. pension funds increasingly are turning to American investment managers when hiring for international accounts. Page 1.

Japan's Ministry of Finance is urged to conduct a full investigation into the country's trading scandal. Page 33.

REAL ESTATE

Baring Institutional Realty decides to pull its Empire Fund off the market after investors take a pass on the partnership. Page 6.

California's two state funds revise their systems for handling cash in their realty portfolios. Page 12.

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California may cut funding

Governor to pick actuary for fund

By Steve Hemmerick

SACRAMENTO, Calif. — Gov. Pete Wilson is expected to name a new actuary this week for the California Public Employees' Retirement System, a decision that system officials think could result in a major slash in state pension funding.

Some fund officials say they expect the governor and Legislature quietly will lop off as much as $480 million a year in government pension contributions under the cover of actuarial changes in assumption rates.

An attempt to block the governor from replacing the current actuary, chosen by the system's board, has been made through a legal petition. A coalition of employees, including the Association of California State Attorneys & Administrative Law Judges, filed the petition Aug. 1 in the State Court of Appeal, Third District, in Sacramento.

The petition asks for a stay in the appointment of a new actuary. The court's decision on whether to grant the stay could come as early as this week, said Anne Stausboll, an attorney with the California State Employees Association, a member of the coalition.

AP/WIDE WORLD PHOTOS

California Gov. Pete Wilson could cut pension contributions by as much as $480 million through actuarial changes.

The appellate court's final ruling on whether the governor has the right to appoint the actuary might not come before October; new actuarial figures to decide state pension funding levels could be needed earlier.

Although public pension officials generally depend on the general public to defend the funds against government financial raids, CalPERS officials can't rely on a public outcry over this situation because the actuarial process is so hard for the public to understand.

When the California Legislature

See **Actuary** *on page 34*

Merger to boost trust business

Bank of America would return in force

By Cur[illegible]osti

Bank of America will return to the institutional trust business with a vengeance if the proposed merger with Security Pacific Corp. succeeds.

The merger proposal, announced Aug. 12, also will enable BankAmerica Corp., the parent company, to tap into the institutional and retail potential of Security Pacific's $6 billion Horizon mutual funds.

Institutional investors, however, believe it is too soon to say how the merger would affect them, except that a stronger bank would be able to better maintain good services. And those familiar with the banks say the merger would be a good fit in many areas.

"We don't think there is any overlap in the institutional business," said an officer of Security Pacific Investment Management Group, who asked not to be identified because, he said, jobs had been threatened for talking to the press.

According to information supplied to *Pensions & Investments*, Security Pacific Investment Group [illegible]ven subsidiaries manage[illegible] billion in institutional, tax-exempt discretionary assets as of Jan. 1; Bank of America managed $2.3 billion.

As of June 30, Security Pacific oversaw $22 billion in domestic master trust business, $55 billion in domestic master custodial accounts and $2.5 billion in global custody assets for U.S. tax-exempt clients.

As of June 30, 1990, the most recent data obtainable, Bank of America had $2.1 billion in domestic master trust, $16 billion in master custodial assets and $2 billion in global custody assets for U.S. tax-exempt clients.

"They get back into the trust business," said Mark Tonucci, vice president and bank analyst with The Keystone Group, Boston. Perhaps more important, he said, is that the new bank will have access to all the retail and distribution channels that will accrue from Security Pacific's proprietary mutual funds.

"Looking down the road, that could be more lucrative than the trust business," he said, referring to mutual funds' growing use in 401(k) plans and other employee

See **Banks** *on page 35*

State Street Research for sale

By Terry Williams

BOSTON — Investors are lined up to buy State Street Research & Management Co. from its parent, Metropolitan Life Insurance Co. First in line is United Asset Management.

If negotiations with UAM fail, Metropolitan Life and State Street Research management will consider offers from other, unidentified suitors.

If no suitor wins the company, Met Life could reduce its 100% ownership of the firm, which has $15 billion in assets under management, and give State Street Research employees an equity stake and the greater control and independence they desire.

A deal should be struck in the next couple of months, said a source familiar with the situation. "Definitely this fall, they will resolve this question, one way or another," said the source, who asked not to be identified.

Any sale of State Street Research requires approval of the firm's management, he said.

Met Life officials have told State Street Research clients the insurer is committed to giving management independence, the source said. "It added management wants a financial structure that would align its financial interest with the owner.

"People who think of owning businesses such as these must face that reality," he said. "The assets go down the elevator every night."

Franklyn Kettle, a spokesman for United Asset Management, declined to comment, as did representatives of Metropolitan Life and State Street Research.

According to the source, Metropolitan Life was not shopping the firm, but was approached by UAM and other suitors about a year ago.

Discussions with United Asset Management — the only suitor seriously considered — began last summer but ran aground by fall, according to the executive. They picked up again this spring and have reached a "fever pitch," he said. ■

BENEFITS

U.S. employers give workers fewer days at the beach

■ North America is clearly not the place for burned-out employees to be when vacation time rolls around.

While in the United States companies commonly allow two weeks of vacation at one year of service, countries where tenure has little to do with paid time-off arrangements offer as much as 30 days vacation for employees with one year of service, according to a Hewitt Associates survey.

The consulting firm, based in Lincolnshire, Ill., surveyed more than 900 major employers in the United States.

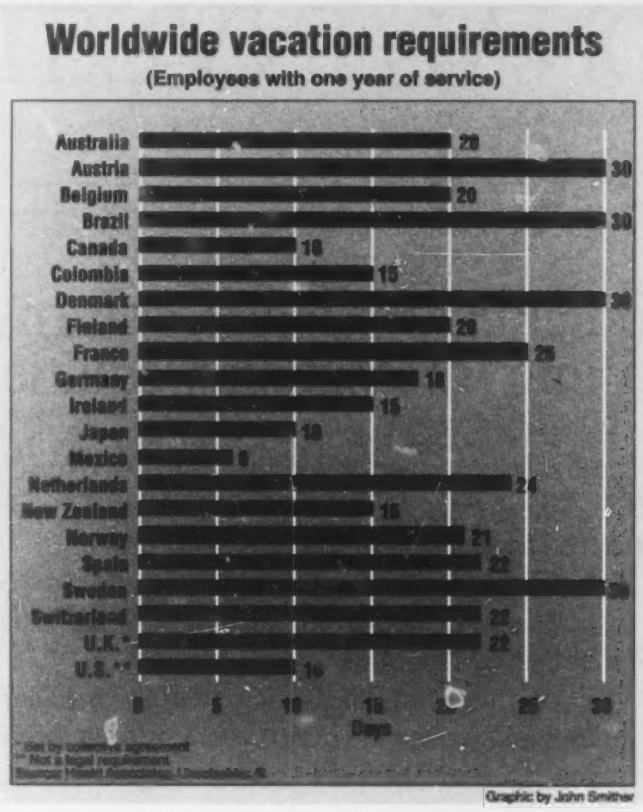
Austria, Brazil, Denmark and Sweden have the most generous employers, offering 30 days to employees with one year of service.

Mexican companies are even more frugal than their U.S. counterparts, offering only six days with one year of service.

While in the United States the length of service is the primary determinant of vacation time, in other countries vacation policy typically is government imposed.

In addition to paid vacation, employers in some regions, particularly Scandinavia, are required to pay for employee festivities. They must provide a cash "vacation bonus" that can amount to as much as 4% to 12% of an employee's annual pay.

— Marlene Givant Star



WASHINGTON

Congress backs off sanctions bill

■ A bill that would create sanctions against foreign money managers whose countries discriminate against U.S. money managers was dropped from key House legislation but still might be passed this year.

The "Fair Trade in Finance Services Act" could provide a big stick to wave at Japan and Korea. The main thrust of the bill would affect foreign banks and securities firms, but it also includes provisions that would permit the Securities and Exchange Commission to deny registration to money managers from countries that failed to provide U.S. managers equal access to their home market.

The bill would permit foreign managers that already have a U.S. presence to continue, but such firms could be prohibited from expanding their operations. The measure has been pushed by Sen. Donald Riegle Jr., D-Mich., and Sen. Jake Garn, R-Utah, the respective chairman and ranking minority member of the Senate Banking Committee, and has been passed by the Senate five times.

Despite being dropped Aug. 2 from a short-term extension of the Defense Production Act, H.R. 991, the proposed sanctions are included in the Senate banking reform legislation, which awaits a vote by the Senate in September.

— Joel Chernoff

FINANCING

Venture will advise troubled firms

■ Morris Anderson & Associates Ltd., a Rosemont, Ill., management consulting firm, and SPP Hambro & Co., New York, an investment banking boutique, have entered into an agreement to provide financial advisory and management consulting services to underperforming middle-market companies.

The joint venture Morris Anderson/SPP Hambro Financial Services, will provide services in the areas of crisis and turnaround management, debt restructuring, divestitures, mergers and acquisitions and capital raising.

The new organization will draw upon the more than 75 professionals of the two entities and maintain offices in New York, Chicago and Los Angeles.

SPP Hambro is the U.S. corporate finance affiliate of Hambros Bank Ltd., London.

Morris Anderson was seeking an investment bank to help clients that were ready to be sold or raise capital. SPP Hambro, which increasingly is involved in the financial end of company turnarounds, was looking for a firm that could provide expertise on the operations side.

"This will allow us to offer the full gamut of services to troubled companies or their constituencies," said Joseph D. Mark, managing director of SPP Hambro.

— Marlene Givant Star

REAL ESTATE

Sales don't support mall additions

■ Shopping centers still might be adding too much space at a time when growth in retail sales is flat, according to a report by Salomon Brothers Inc., New York.

The additions in retail space could indicate trouble for pension fund investors, who often buy shopping centers as a dependable source of investment return.

While the amount of new construction of retail space is declining compared with previous years, the amount of retail space being added through renovations is at a record pace, said the Salomon Brothers report, "Shopping Center Recycling: Deluges of Space — Delusions of Strong Returns."

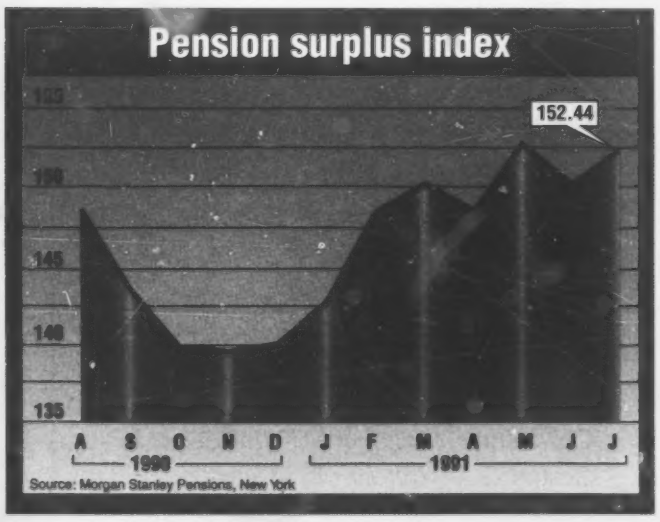
According to the report, "Net renovations to shopping centers as a percentage of total new construction reached an unprecedented 15% level in 1990, compared with the 11% to 12% peak of the 1970-'80 cycle."

In many instances, the value added through renovations of a retail center could be marginal and only prolong the glut of retail space, the report stated.

The price of retail centers also has been falling as investors demand greater yields on their investment, as much as 300 basis points on regional malls.

The Salomon Brothers report said, however, the initial yield increase sought from the top 10% of retail shopping centers is expected to increase only 50 basis points over the 5.5% to 6.5% yield sought in 1989.

— Steve Hemmerick



INTERNATIONAL

Canadian funds fail to surpass local yardsticks

■ The median Canadian pension fund posted an overall return of 0.2% in the second quarter, trailing local market indexes, according to the Canadian Trust Universe Comparison Service.

The funds' median domestic equity return matched the Toronto Stock Exchange 300 Index, at 0.3% for the quarter. The median bond return, 0.3%, trailed the Scotia-McLeod Inc. Universe Bond Index, which returned 0.5%.

The median return for foreign equities was −2.8%; this includes U.S. and non-North American markets. Canadian pension funds are limited to investing 10% of their assets in foreign equities. The Standard & Poor's 500 Stock Index declined 1.6% in Canadian dollar terms. The quarter's return, in Canadian dollar terms, for the Morgan Stanley Capital International Europe Australia Far East Index was not available.

For the year ended June 30, the median total fund returned 8.9%. Funds with a low allocation to equities outperformed those with higher commitments; those with less than 30% in equities had a median return of 9.7%, while those with more than 50% in equities earned a median 5.4%.

The funds' median Canadian equity return was 3.3% for the year, beating the TSE 300's 1.9%. The median bond return was 14.6%, slightly trailing the Scotia-McLeod's 15.3%. The median foreign equity return was 1.5%; the S&P 500 was up 5.5% in Canadian dollar terms, while the EAFE declined 13.2% when converted into Canadian currency.

— Trudy Ring

Douglas Graham says Pro*Stock data is reanalyzed nightly.

SOFTWARE

System now has daily data feature

■ Black River Systems Corp., Winston-Salem, N.C., has expanded the availability of its sophisticated master analytic stock selection system to users needing daily information on the stock market.

Prior to the release of its Pro*Stock system, Black River's Macro*World Investor module made available monthly financial forecasting, asset allocation and portfolio optimization modules. Pro*Stock gives portfolio managers access to its master system for detailed information on the 2,500 stocks on the New York and American exchanges as well as 200 commodity contracts, 12 exchange and interest rates and various market indexes.

The Black River modeling system provides specific buy-sell recommendations and a daily download of the most recent 60-day history of each stock along with the 30-day price forecast based on the model, according to Douglas Graham, Black River president.

"The system provides a daily action sheet with critical trading information and clear action signals based on the comprehensive analyses of the master system for each stock in an investor's portfolio," he said.

Information is reanalyzed nightly by the master system and downloaded in the user's PC before the market opens, he said.

— Fred Williams

MONEY MANAGERS

Professionals break away to start own advisory firms

■ Two new investment management firms have been launched by veteran portfolio managers.

Rebecca Garner, vice president with Associated Capital Investors, which managed general account assets for First Variable Life Insurance Co., Little Rock, Ark., has formed Garner Asset Management Corp., a fixed-income firm in Little Rock.

In Seattle, Steven Koenig, former portfolio manger with Franklin Research & Development Corp., Boston, has quit to form a new social investment management firm — Informed Investors Group — which will specialize in equities of companies based in the Pacific Northwest.

Garner Asset Management will be owned by the three principals, with Ms. Garner owning 70%. Garner will manage the $170 million First Variable general account.

Ms. Garner said she will be joined by Carl Pellegrini, founder and owner of Analytics Inc., a Dallas-based economic services firm providing fundamental and technical analysis that will be folded into Garner.

Glen E. Atkins, research director at First Variable, will serve as Garner's director of research. She said her firm will specialize in "basic fixed-income and bond management" and will use a value income approach to investing in the bond market.

She said core fixed-income portfolios — her specialty — "aren't terribly exciting, but they are something pension plan sponsors appreciate."

Mr. Koenig said Informed Investors' clients can tailor their portfolios "to include companies which are producing goods and services compatible with their beliefs and desires, while not sacrificing investment return."

Ruben Porter, a former analyst at Franklin, also is a principal at Informed Investors.

In addition, Mr. Koenig said, the firm will work with its clients in the shareholder rights area.

— Fred Williams

Rebecca Garner's new firm will specialize in core fixed-income portfolios.

INTERNATIONAL

U.K. public funds' returns strong

■ For both longer and shorter terms, U.K. public pension funds' performance has bested those of U.K. funds overall.

The WM Co., Edinburgh, Scotland, studied 91 local authority superannuation funds with combined assets of almost $59 billion. The firm found that in the year ended March 31, these funds posted an 8.3% return vs. 8.1% for all British pension funds. The funds comprise about 14.2% of all U.K. pension assets in WM's universe.

For the nine years ended in March, local authority funds rang up a 16.9% annualized return, vs. 16.5% for all U.K. funds.

According to WM, the returns of U.K. property were pivotal factors behind local authority funds' returns. As a WM report stated: "Property has underperformed all other categories over the most recent year and the longer term."

At the end of March, local authority funds had only a 5% exposure to property compared with the 8% exposure by all U.K. funds.

— Margaret Price

Asset mix changes

All U.K. funds vs. local authority funds

	As of March 28, 1991		As of March 31, 1992	
	All U.K.	Local authority	All U.K.	Local authority
Overseas equities	21	21	12	9
Overseas bonds	4	4	0	0
Cash and other	6	7	4	3
Overseas property	0	0	0	0

FOR THE RECORD

This investment portfolio is horse of a different color

■ Who says crime doesn't pay?

Pension Fraud paid handsomely for a number of investors on Monday, July 29.

In fact, it paid $4 for every $2 invested. Pension Fraud finished third in the fourth race at Saratoga, New York, that day.

The horse was named by its owner for a friend — a union official — who was being investigated by the government. In another jab at his friend, the owner named another horse Fingers in the Till.

The union official eventually was cleared of any wrongdoing.

— Mike Clowes

INVESTING

A possible nadir for bank earnings

■ The U.S. banking industry's performance might have bottomed out, as second-quarter earnings were well above lows registered in past quarters.

A study by Keefe, Bruyette & Woods Inc., New York, the largest broker/dealer specializing in bank securities, shows aggregate net income before extraordinary items totaled $2.9 billion during the quarter, representing a nearly 24% decline from the $3.8 billion earned by the banks a year ago and 17% below first-quarter 1991's $3.5 billion.

Still, the figures far exceed the $363 million earned in the fourth quarter of 1990 and the $2 billion earned in the third period. "This may indicate that the third and fourth quarters of last year were the earnings trough for the industry," said Donald K. Crowley, executive vice president and associate director-research for the firm.

The median return on assets for the more than 140 banking companies was 0.86% and the median return on equity was 12.6%. That's still short of the year-earlier levels of 0.9% ROA and 13.6% ROE but favorable compared with first-quarter levels of 0.84% and 12.5% respectively.

"The national recession is making it hard for banking companies to re-establish any strong upward momentum," said Mr. Crowley.

— Marlene Givant Star

REAL ESTATE

NAREIM tackles issues in property valuation debate

■ The National Association of Real Estate Investment Managers, whose members manage $3 trillion in real estate, thinks it might have the solution to the controversy on how to value properties held by pension funds and other investors.

Some pension officers have stoked the valuation controversy by complaining real estate money managers have simply overvalued properties they manage for pension funds, sometimes to boost the revenue generated by management fees. Some managers base their fees on the appraised value of properties they manage in commingled funds or separate accounts.

The suspicion about inflated appraisals has led some pension funds to pull assets from commingled real estate funds, or to not invest with the funds or in real estate at all, according to pension consultants.

But money managers have countered that the pension officers and some property appraisers have confused the market value of properties with liquidation value, the value of a property in a quick, forced sale.

The controversy has been so damaging to money managers that NAREIM's marketing forum asked the group's executive committee to draw up a position paper regarding the valuation policy on properties.

The executive committee recommended the current or market value of real estate be set at the best estimate of what a property would sell for under current market conditions within a one-year period when there is no "undue stimulus" affecting the sale.

Vince Martin, a managing director of TCW Realty Advisors, Los Angeles, and chairman of NAREIM, said it is "very interesting and enlightening to see such extensive agreement" among NAREIM members.

— Steve Hemmerick

RATINGS

Moody's the first to enter growing German market

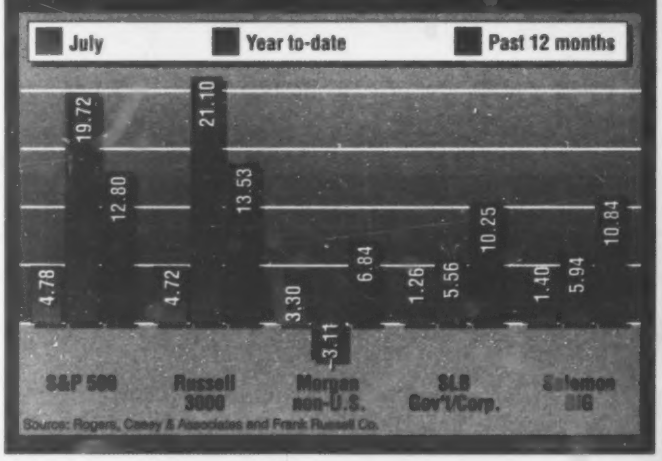
■ The first rating agency in the Federal Republic of Germany has been established by Moody's Investors Service. The agency, to be based in Frankfurt, will be known as Moody's Deutschland GmbH.

The agency is being formed in response to requests for independent credit ratings on the growing number of issues and issuers in Germany's debt markets — particularly the newly established deutsche mark commercial paper sector. Moody's Deutschland will operate in concert with the firm's offices in London, Paris, New York, Sydney and Tokyo.

— Marlene Givant Star

Pensions & Investments' indexes

The P&I monthly indexes track changes in the Standard & Poor's 500 Stock Index, Frank Russell Co.'s Russell 3000 Stock Index, the J.P. Morgan non-U.S. Government Bond Index, the Shearson Lehman Brothers Government Corporate Bond Index and the Salomon Brothers Broad Investment Grade Bond Index.



Source: Rogers, Casey & Associates and Frank Russell Co.

Managers find junk useful

Rebound in high-yield prices propels performance

By Terry Williams

Junk bonds provided the most interesting story in the second quarter, as fixed-income funds in both the PIPER and PIPER+ surveys used the much maligned securities to reach the top spot for the period.

PIPER — Pensions & Investments' Performance Evaluation Report — measures the returns of bank and insurance company commingled accounts. PIPER+ measures the performance of investment management firms. The reports are compiled by Rogers, Casey & Associates, Darien, Conn.

Atlanta-based Bell Capital Management's managed bond portfolio capped off steady performance during the five-, three- and one-year periods with a return on investment of 7.5% in the second quarter to lead the PIPER+ universe. The median return for the quarter was 1.7%.

For the year ended June 30, the managed bond portfolio posted a return of 28.4%, good for second place; for the three years it was 14%, good for another appearance as runner-up; and 12.5% for the five years for — what else — second place. (All returns for periods of more than one year are compound annualized.)

The Dimension Fund — sponsored by Connecticut Mutual Life Insurance Co., Hartford, and managed by Delaware Investment Advisers of Philadelphia — posted a return of 8.1% for the quarter to lead PIPER. The median return for the quarter was 1.77%.

Its performance over longer time periods was more reflective of the trauma in the junk market. The fund invests only in junk securities, although conservatively by investing in the securities of companies still performing. For the one- and three-year periods, Dimension was in the bottom decile ranking of the PIPER fixed-income universe, posting respective return on investments of 4.96% and 4.93%.

But after getting the bum's rush for the latter part of the '80s and most of 1990, junk bond prices began to rise in the fourth quarter, and junk bonds provided the highest fixed-income returns in the PIPER universes for the first half of 1991.

Highly correlated with equities, the junk bond market grabbed onto the coattail of the stock market and was pulled along during its rise following the start of Operation Desert Storm in January.

The Dimension fund, a $20.1 million specialty fund in Connecticut Mutual Life's separate account group, owned the high-yield debt of operating companies, and capitalized on the strengthening high-yield market.

Among Dimension Fund's holdings are the debt of **Lomas Financial Corp.**, **Wang Labs Inc.**, **Navistar Financial Corp.** and **Owens Corning**, according to Maureen Ford, vice president.

Coupons of the top 10 holdings, which make up 25.6% of the portfolio, range between 9% and 13%.

Although Bell's managed bond portfolio used the same asset class as Dimension to top its universe in the second quarter, it employed an entirely different method.

Using interest rate anticipation as its primary research tool, Bell seeks to invest in bond mutual funds when there are indications that bond prices will rise, according to Tom Comsudes, vice president.

The firm divides its market into four sectors: governments, investment-grade corporates, high-yield corporates and convertible bonds, and it expects to be in and out of these sectors at least four times per year.

When it buys, it allocates a minimum of 50% of assets to a sector. The remaining 50% may be held in cash or one of the three remaining sectors, depending on the firm's outlook.

The managed bond portfolio now is 100% invested in high-yield mutual funds and has been since Jan. 29.

The decision to do so was driven by Bell's technical analysis of the high-yield sector, not interest rate anticipation.

"The high-yield market showed strength," said Mr. Comsudes. "Whether it was because of Desert Storm or other factors, it was technically showing strength.

"Government bonds were not attractive. Investment-grade corporates weren't attractive."

Mr. Comsudes said the $80 million portfolio does not buy individual issues of bonds because it can get more attractive prices using mutual funds, it saves on brokers commissions, it minimizes default risk and it's easier to get out of the market when bond prices fall.

With high-yield bonds, mutual funds provide liquidity in a volatile market, he said. ■

PIPER fixed-income funds

Periods ended June 30

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
First quartile	2.06	10.86	10.06	8.76	13.33
Third quartile	1.51	9.72	9.15	7.95	11.80
SLB G/C	1.51	10.22	9.87	8.33	13.19

PIPER equity funds

Periods ended June 30

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
First quartile	0.49	9.80	15.13	11.86	15.95
Third quartile	-1.47	5.01	11.30	9.05	13.54
S&P 500	-0.24	7.40	14.63	11.91	15.58

PIPER special equity funds

Periods ended June 30

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
First quartile	2.46	15.93	15.55	12.55	16.36
Third quartile	-2.41	4.47	7.89	7.82	12.12
S&P 500	-0.24	7.40	14.63	11.91	15.58

PIPER+ fixed-income funds

Periods ended June 30

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
First quartile	1.97	11.08	10.28	9.21	14.10
Third quartile	1.44	9.61	9.19	8.22	12.43
SLB G/C	1.51	10.22	9.87	8.33	13.19

PIPER+ equity funds

Periods ended June 30

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
First quartile	0.99	11.52	16.40	13.13	17.71
Third quartile	-2.09	4.82	10.81	9.65	14.60
S&P 500	-0.24	7.40	14.63	11.91	15.58

PIPER+ special equity funds

Periods ended June 30

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
First quartile	5.40	12.58	13.11	10.88	17.09
Third quartile	-2.95	3.72	6.97	7.04	13.06
S&P 500	-0.24	7.40	14.63	11.91	15.58

Mortgage funds tops in real estate universe

By Steve Hemmerick

The plunge in real estate values has made mortgage funds one of the best performing investments in real estate, but pension investors have put very little money in them.

One mortgage fund, The Prudential Realty Group's Union Mortgage Account has scored in the top 10% of investment performance for the quarter, the year and the three years ended March 31, according to Pensions & Investments' Performance Evaluation Report.

The $148 million UMA open-end commingled real estate fund scored a total return of 3.73% for the quarter, 13.57% for the year and 11.64% for three years. (All returns for periods of more than one year are compound annualized.)

The UMA fund achieved about three times the median quarter return, 1.21%; about 10 times the one year median return, 1.26%; and almost three times the three-year median return, 4.65% for open-end real estate funds.

Most of the return from straight mortgage funds and participating mortgage funds return is fixed. When property values fall the investment return from mortgage funds doesn't necessarily fall, provided the borrower is able to pay the debt.

UMA invests primarily in fixed-rate, straight mortgages and construction loans on properties to be built or substantially renovated by contractors employing 100% union labor.

An open-end fund that invests 70% of its assets in participating and convertible mortgages, New York-based UBS Asset Management's CMB Fund is a top performer in the shorter and longer terms.

The $110 million UBS fund returned 2.48% in the quarter, 3.52% for the year, 8.1% for three years and 10.7% for five years. UBS Asset Management is the investment management subsidiary of Union Bank of Switzerland, Zurich.

A Prudential Realty Group participating mortgage fund, Preference Investment Mortgage Account, also soundly beat the open-end median returns, but by a narrower margin than Prudential's UMA. PRIMOR returned 2.28% for the quarter, 7.37% for the year and 7.26% for three years.

A closed-end mortgage account also has had high returns. INVESCO Realty Advisors, Dallas, Mortgage Fund I with only $18 million in assets has returned 2.41% for the quarter, 3.43% for the year and 11.06% for three years.

For closed-end funds, the INVESCO participating mortgage fund had almost twice the median return for the quarter, 1.26%; more than four times the one year median return, 0.83%; and almost two times the three year median return, 6.18%.

Yet pension funds have put little money in mortgage funds, partly because of the pension investment "infrastructure," according to Paul Saint-Pierre, president of Pension Realty Advisors, San Francisco.

Many real estate money mangers didn't market mortgage funds enthusiastically to the pension community and many consultants didn't recommend them like they did equity real estate funds, said Mr. Saint-Pierre. Another problem, he said, was that pension officers couldn't decide whether mortgage funds were a bondlike investment or a real estate investment. As a result, mortgage funds "fell through the cracks," he said.

Of the more than 100 commingled real estate funds in PIPER, fewer than 10 are mortgage funds and most of them are small, some tiny, in asset size in comparison with equity real estate funds.

As of June 30, 1990, real estate money managers reported $129 billion under management, but only $6 billion in mortgages, and most of the mortgage investments were part of investment by equity funds.

At UBS Asset, Russell Blumenthal, a vice president, said UBS hasn't focused on marketing its mortgage fund because it has concentrated on its seven real estate separate account clients of Middle East and Japanese institutional investors.

Kevin Smith, a vice president and portfolio manager with Prudential Realty Group, Newark, N.J., said pension fund officers

See **PIPER** *on page 28*

Top decile PIPER commingled fixed-income funds

3-month returns

	%
Connecticut Mutual (Dimension)	8.1
Wellington Trust (Emerg.), Mass.	7.8
Second Nat'l Bank, Ohio	7.7
Northern Trust (Inter.), Ill.	3.7
Princeton Bank, N.J.	3.5
Greeley Nat'l, Colo.	3.2
Beverly Trust, Ill.	3.1
AmSouth (Ltd. mat.), Ala.	3.1
Cullen Bank, Texas	3.0
Wesbanco Wheeling, W. Va.	2.9
Bankers Trust (Short/inter.), N.Y.	2.9
The Phoenix (Mgd.), Conn.	2.8
Northern Trust, Ill.	2.7
Security Nat'l (II), W. Va.	2.7
First Security Nat'l (F), Ky.	2.6
Union Capital (Short int.), Calif.	2.6
First Nat'l Litchfield (CTF A), Conn.	2.6
Sanwa Bank (C), Calif.	2.5
Mercantile Bank Joplin (B), Mo.	2.5
Union Central, Ohio	2.5
Penn Mutual (S.A. C), Pa.	2.5
Fifth Third Bank-Toledo (F), Ohio	2.5
Hibernia Nat'l (Inter.), La.	2.5
Lake Shore Nat'l, Ill.	2.5
First Nat'l of Amarillo, Texas	2.5
Prudential (PRIVEST), N.J.	2.5
Central Fidelity (Short), Va.	2.4
SLB G/C	**1.5**

1-year returns

	%
Second Nat'l Bank, Ohio	13.5
Penn Mutual (S.A. C), Pa.	13.3
Northern Trust, Ill.	13.3
Princeton Bank, N.J.	12.9
PW Trust (Conserv.), N.J.	12.5
Life of Virginia	12.5
First Nat'l of Amarillo, Texas	12.4
J.P. Morgan, N.Y.	12.3
NCNB Texas (Mtg. backed)	12.3
First Nat'l of Maryland	12.1
Cullen Bank, Texas	12.1
Aetna Life (Inc. shares), Conn.	12.1
Union Central, Ohio	11.9
Merchants Nat'l, Ind.	11.8
J.P. Morgan (Tact. duration), N.Y.	11.8
UBS Asset (CMB sec. mtg.), N.Y.	11.7
Northern Trust (Inter.), Ill.	11.7
Calcasieu Marine (E), La.	11.7
Ameritrust (RT GNMA), Ohio	11.7
Sun Bank, Fla.	11.6
Wellington (Enhanced), Mass.	11.5
Old Second Nat'l, Ill.	11.5
Nat'l Bank of Detroit	11.4
LaSalle Nat'l (Gov't/mtg.), Ill.	11.4
Citytrust (E3), Conn.	11.4
Sovran Capital, Va.	11.4
First Tennessee Bank	11.3
SLB G/C	**10.2**

5-year returns

	%
Meridian, Pa.	10.6
Transamerica Life (S.A. T2), Calif.	10.3
Bankers Trust (Mtg. pass), N.Y.	10.2
Beverly Trust, Ill.	10.1
General American (S.A. 6), Mo.	10.1
NCNB Texas (Mtg. backed)	9.9
Aetna Life (Inc. shares), Conn.	9.9
General American (S.A. 9), Mo.	9.9
First Nat'l of Amarillo, Texas	9.9
Sanwa Bank (C), Calif.	9.8
LaSalle Nat'l (Gov't/mtg.), Ill.	9.7
J.P. Morgan, N.Y.	9.7
IAA Trust (B), Ill.	9.6
Cullen Bank, Texas	9.6
Second Nat'l Bank, Ohio	9.6
UBS Asset (CMB Sec. mtg.), N.Y.	9.6
First Nat'l of Maryland	9.5
Mercantile Safe, Md.	9.5
Harris Trust, Ill.	9.5
Pacific Financial, Calif.	9.4
The Principal, Iowa	9.4
Columbus Bank, Ga.	9.4
Marinvest, N.Y.	9.3
Sovran Capital, Va.	9.3
Chancellor (Mtg. sec.), N.Y.	9.3
SLB G/C	**8.3**

10-year returns

	%
Transamerica Life (S.A. T2), Calif.	16.1
Meridan, Pa.	15.7
United Capital, Colo.	15.3
Boatmen's Trust (F), Mo.	15.0
Life of Virginia	14.8
Beverly Trust, Ill.	14.7
IAA Trust (B), Ill.	14.6
Sovran Capital, Va.	14.4
ASB Capital, D.C.	14.3
First Kentucky Trust	14.3
Sanwa Bank (C), Calif.	14.3
First Nat'l of Amarillo, Texas	14.3
Pacific Financial, Calif.	14.2
J.P. Morgan, N.Y.	14.1
Bankers Trust (Mtg. pass), N.Y.	14.1
Society Nat'l, Ohio	14.0
Aetna Life (Inc. shares), Conn.	13.9
SLB G/C	**13.2**

Top decile PIPER commingled equity funds

3-month returns

	%
First Nat'l of Elgin (C), Ill.	5.6
State Bank (C), Ohio	4.9
First Nat'l of Elgin (A), Ill.	4.9
CL Capital, Ga.	4.9
Sunburst Bank, Miss.	4.7
Boatmen's (Value), Mo.	4.5
Second Nat'l Bank, Ohio	4.5
Sun Bank (Income), Fla.	4.4
Pacific Fin. (Divers. low p/e), Calif.	4.1
U.S. Nat'l Bank, Texas	3.7
Provident Capital, Pa.	3.4
Wilmington Trust (V), Del.	2.9
Wesbanco Wheeling (B), W.Va.	2.9
Boatmen's (Value plus), Mo.	2.8
New York Life (Value S.A. 6)	2.7
Mercantile Safe (2nd Cent.), Md.	2.7
Mississippi Valley, Mo.	2.6
The Principal, Iowa	2.6
Fifth Third Bank-Toledo, Ohio	2.5
Merus Capital (Income), Calif.	2.5
Pacific Fin. (Income), Calif.	2.3
Pacific NW Trust, Ore.	2.1
Norwest Bank, Minn.	2.1
First Nat'l of Omaha (D), Neb.	2.1
PRIFORM Invst., N.J.	2.1
NBD Trust, Ill.	2.1
Banc One Asset (Special), Ohio	2.0
Mercantile Safe, Md.	2.0
Team Bank (Value), Texas	1.9
Fifth Third Bank (Mid. cap.), Ohio	1.9
S&P 500	**-0.2**

1-year returns

	%
Second Nat'l Bank (Gro.), Ohio	23.8
Fifth Third Bank-Toledo, Ohio	19.7
Chancellor (Gro.), N.Y.	19.5
Bank of the West, Calif.	19.3
Pacific Fin. (Income), Calif.	19.3
Sun Bank (Income), Fla.	19.0
Chancellor (Sel. gro.), N.Y.	18.2
NBD Trust, Ill.	17.1
Fifth Third Bank (Mid. cap.), Ohio	16.6
U.S. Nat'l Bank, Texas	16.5
Team Bank (Value), Texas	15.8
Norwest Bank, Minn.	15.7
Sentry Equity (S.A. B), Wis.	15.6
Pacific Financial (Divers. low p/e)	15.0
Team Bank (Gro.), Texas	14.8
American Nat'l Bank, Ind.	14.2
Pacific NW Trust, Ore.	13.7
The Phoenix (Gro. S), Conn.	13.7
New York Life (S.A. 1)	13.7
Liberty Nat'l, Okla.	13.5
Merus Capital (Sp. gro.), Calif.	13.3
LaSalle Street (Intrinsic value), Ill.	13.3
United Carolina, N.C.	13.1
Mercantile Safe (2nd. Cent.), Md.	12.9
Mercantile Safe, Md.	12.9
Sovran Capital, Va.	12.9
CL Capital, Ga.	12.7
First Midwest Asset, Ill.	12.7
The Phoenix, Conn.	12.7
John Hancock (Divers. 1K), Mass.	12.6
S&P 500	**7.4**

5-year returns

	%
Chancellor (Sel. gro.), N.Y.	18.2
Pacific Fin. (Sm. cap.), Calif.	16.5
Sun Bank, Fla.	16.4
The Phoenix (Gro. S), Conn.	16.4
Wesbanco Wheeling (B), W.Va.	16.2
State Street (Matrix syn.), Mass.	16.1
IDS Trust (Core gro.), Minn.	15.5
Chancellor (Gro.), N.Y.	15.4
John Hancock (Divers. 1K), Mass.	15.3

Bank One-Indianapolis (L)	15.1
First Nat'l Amarillo, Texas	15.0
Lincoln Nat'l (Select), Ind.	15.0
U.S. Nat'l Bank, Texas	15.0
Pacific Fin. (Income), Calif.	14.7
Meridian, Pa.	14.7
Mark Twain Bank, Mo.	14.6
The Phoenix, Conn.	14.2
Bank One Wis. Trust (Growth)	14.1
Pacific Fin. (Cap. apprec.), Calif.	13.9
First Illinois (Corp.)	13.8
First Illinois (Personal)	13.6
NCNB Nat'l Bank (Growth), N.C.	13.6
Aetna Life (S.A. 2), Conn.	13.5
Shearson Trust (EF7), Del.	13.4
Sovran Capital, Va.	13.4
Chancellor (Styleshift), N.Y.	13.4
S&P 500	**11.9**

10-year returns

	%
Sun Bank, Fla.	23.7
Pacific Fin. (Cap. apprec.), Calif.	20.4
First Nat'l Amarillo, Texas	19.1
U.S. Nat'l Bank, Texas	18.2
Wesbanco Wheeling (B), W.Va.	18.1
Provident Mutual (S.A. 1), Pa.	18.0
First Union Nat'l, N.C.	17.9
Nationwide Life, Ohio	17.7
Merus Capital (Income), Calif.	17.7
Chancellor (Gro.), N.Y.	17.4
Connecticut Mutual	17.4
Merus Capital (Gro. plus), Calif.	17.4
Manufacturer Affiliate (Gro.), Ill.	17.3
Manufacturers Detroit (E)	17.3
Markston Invst. (Lt. gro.), N.Y.	17.2
John Hancock (Divers. 1K), Mass.	17.2
First NH Invst. (Value)	17.1
First Security Nat'l (D), Ky.	17.1
New England (Cap. gro.), Mass.	17.1
S&P 500	**15.6**

An in-depth, comprehensive look at financing and investment opportunities in post-1992 Europe will be the subject of the special report in the Oct. 28 issue of *Pensions & Investments*.

Top decile PIPER commingled special equity funds

3-month returns

	%
Assoc. Bank-Neenah (Reg. bank)	13.5
Wellington Trust (Sp. sit.), Mass.	8.6
Trust Co./West (High yield), Calif.	6.7
First Variable (High yield), Ark.	6.3
Comerica, Mich.	5.5
Markston Invst. (V.A. 15), N.Y.	4.8
Society Nat'l (Central val.), Ohio	4.0
NBD (Opportunity), Mich.	4.0
S&P 500	**−0.2**
Russell 2000	**−1.6**

1-year returns

	%
Chancellor (Emerg. health), N.Y.	50.0
Equitable Capital (Convert.), N.Y.	31.0
Princeton Bank (Em. gro.), N.J.	30.9
First Wis. Asset (Emerg. gro.)	28.1
Equitable Capital (Gro. 3), N.Y.	27.3
UBS (CMB sm. cap. gro.), N.Y.	24.2
Markston Invst. (V.A. 15), N.Y.	22.9
S&P 500	**7.4**
Russell 2000	**1.2**

5-year returns

	%
Chancellor (Emerg. health), N.Y.	15.2
Wellington Trust (Sp. sit.), Mass.	14.9
Equitable Capital (Convert.), N.Y.	14.7
Connecticut Nat'l Bank	14.7
Shearson Trust (EF5), Del.	14.5
Meridian, Pa.	14.3
S&P 500	**11.9**
Russell 2000	**3.8**

10-year returns

	%
Connecticut Nat'l	18.6
Norwest Bank, Minn.	17.9
First Wis. Asset (Sm. gro. B)	17.2
S&P 500	**15.6**
Russell 2000	**9.9**

Top half PIPER commingled international funds

3-month returns

	%
Global Fixed Income (Yield), N.J.	0.4
Wellington (Pacific Basin), Mass.	0.3
CIGNA Int'l (Fixed), Conn.	0.2
Mass. Financial (Global fixed)	0.2
NCNB Nat'l Bank (Eq.), N.C.	0.1
Union Bank (Eq.), Calif.	0.0
J.P. Morgan (Bond), N.Y.	−0.1
Citibank Invst. (Fixed), N.Y.	−0.3
Ameritrust Texas (Bond)	−0.4
Trust Co./West (Global), Calif.	−0.6
New York Life (S.A. 11)	−0.6
Wellington (Emerg. stock), Mass.	−0.7
Global Fixed Income (Bond), N.J.	−0.8
Travelers (Bond index), Conn.	−0.8
Lincoln Nat'l (S.A. 22), Ind.	−0.9
Boatmen's Trust (Eq. W), Mo.	−1.2
Putnam Cos. (Eq.), Mass.	−1.3
CL Capital (Stock), Ga.	−1.3
Global Fixed Income (Bond), N.J.	−1.8
Connecticut Mutual (Overseas)	−1.8
IAA Trust (CTF/I), Ill.	−2.3
J.P. Morgan (Eq.), N.Y.	−2.3
MSCI World	**−3.2**
FTA World	**−3.3**
MSCI EAFE	**−5.4**
FTA Europe & Pacific	**−5.6**

1-year returns

	%
J.P. Morgan (Bond), N.Y.	16.7
Citibank Invst. (Fixed), N.Y.	15.0
Ameritrust Texas (Bond)	11.6
CIGNA Int'l (Fixed), Conn.	10.8
Global Fixed Income (Bond), N.J.	9.9
Mass. Financial (Global fixed)	9.8
Global Fixed Income (Bond)	9.0
Trust Co./West (Global), Calif.	6.6
Global Fixed Income (Yield), N.J.	6.4
Boatmen's Trust (Eq. W), Mo.	1.4
IAA Trust (CTF/I), Ill.	−0.4
Connecticut Mutual (Overseas)	−0.7
CIGNA Corp. (Eq.), Conn.	−1.4
CL Capital (Stock), Ga.	−2.1
Lincoln Nat'l (S.A. 22), Ind.	−4.0
FTA World	**−4.0**
MSCI World	**−4.3**
Wellington (Pacific Basin), Mass.	−5.4
J.P. Morgan (Eq.), N.Y.	−5.5
NCNB Nat'l Bank (Eq.), N.C.	−5.6
Provident Capital (Low p/e), Pa.	−5.9
Union Bank (Eq.), Calif.	−6.6
Putnam Cos. (Eq.), Mass.	−6.9
The Principal (Stock), Iowa	−7.1
FTA Europe & Pacific	**−11.0**
MSCI EAFE	**−11.2**

5-year returns

	%
CIGNA Corp. (Eq.), Conn.	16.8
CL Capital (Stock), Ga.	15.9
Provident Capital (Low p/e), Pa.	14.9
Global Fixed Income (Bond), N.J.	14.7
Wellington (Pacific Basin), Mass.	13.4
Lincoln Nat'l (S.A. 22), Ind.	13.1
J.P. Morgan (Bond), N.Y.	12.1
Global Fixed Income (Yield), N.J.	12.1
Bankers Trust (Eq.), N.Y.	12.0
Putnam Cos. (Eq.), Mass.	11.9
NCNB Nat'l Bank (Eq.), N.C.	11.7
Citibank Invst. (Fixed), N.Y.	11.6
U.S. Trust, N.Y.	11.3
Wellington (Stock), Mass.	11.1
Wells Fargo (Eq. index), Calif.	11.0
FTA Europe & Pacific	**10.9**
MSCI EAFE	**10.8**
FTA World	**10.7**
MSCI World	**10.7**

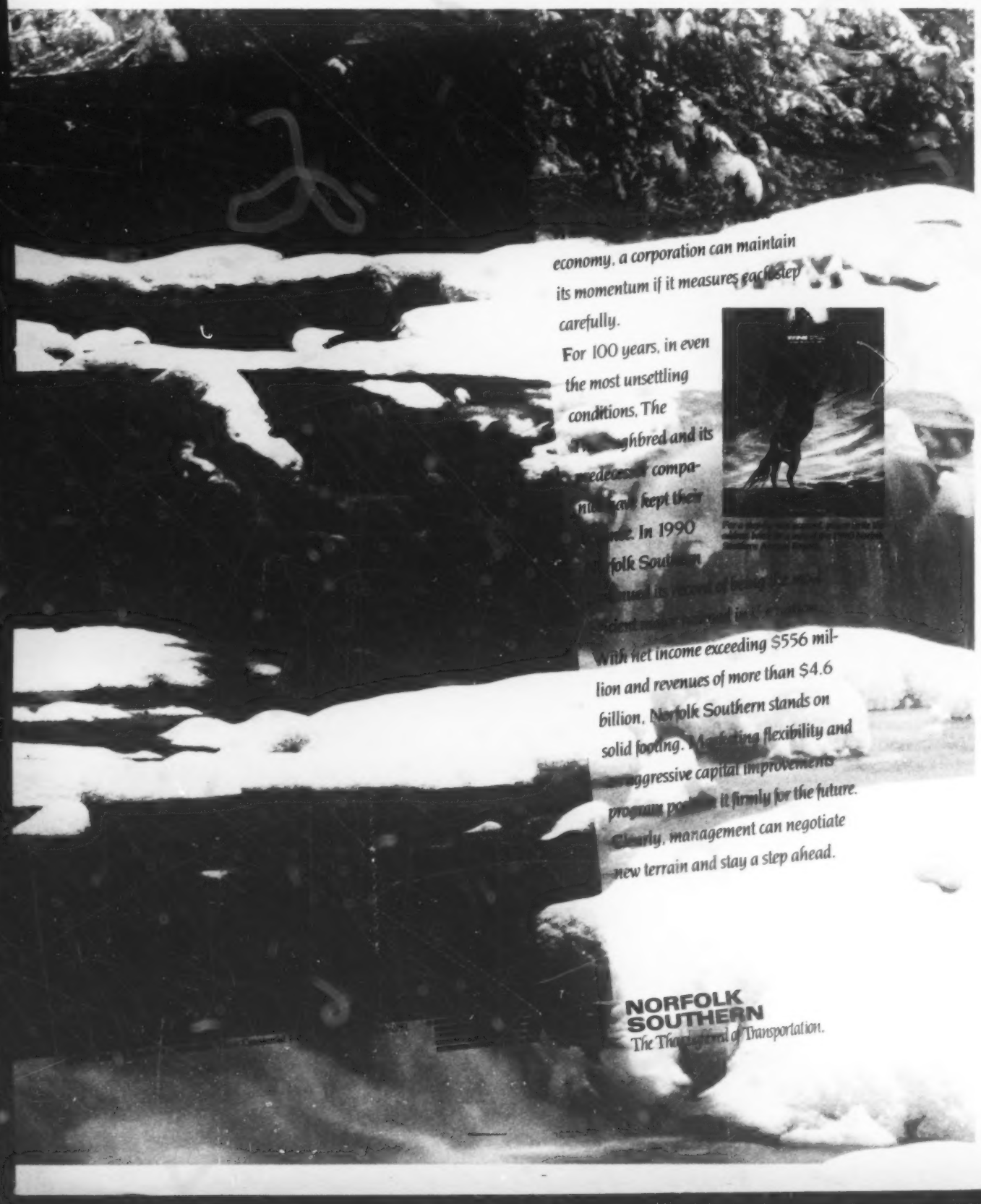
10-year returns

	%
Putnam Cos. (Eq.), Mass.	17.5
MSCI EAFE	**17.2**
Bankers Trust (Eq.), N.Y.	17.1
FTA Europe & Pacific	**17.0**
IDS Int'l (Eq.), Minn.	16.6
Boatmen's Trust (Eq. W), Mo.	16.0
Wells Fargo (Eq. index), Calif.	15.9
MSCI World	**15.7**
U.S. Trust, N.Y.	15.6
FTA World	**14.0**

Top decile PIPER + fixed-income funds

3-month returns

	%
Bell Capital (Mgd.)	7.5



David L. Babson & Co. Inc.

We are pleased to announce that

Ronald E. Gwozdz

has joined the firm as Senior Vice President
and Director of Marketing

One Memorial Drive, Cambridge, MA 02142
(617) 225-3800

Perpetual Advisory (Stamp)	6.9
Scheetz, Smith & Co.	3.7
Loomis, Sayles (Disc.)	3.6
Washington Square (Broad)	3.4
Loomis, Sayles-Pasadena	3.2
Pierson Capital	3.1
Union Capital (Short inter.)	2.6
Income Research (Enhan. cash)	2.5
Pacific Invst. (Low dur.)	2.5
Pension Mgmt.	2.5
JMC Capital	2.5
Western Asset (Ltd. mat.)	2.5
Philadelphia Invst.	2.5
Jamison Eaton Wood (Lg. public)	2.4
Morgan Grenfell Capital	2.4
Signet Asset (Enhanced)	2.4
Investment Advisors	2.4
U.S. Trust of California	2.4
Executive Invst.	2.4
Fox Asset	2.4
Income Research (Interm. dur.)	2.4
Merganser Capital (Interm.)	2.3
Denver Invst. (Interm.)	2.3
SunBank Capital (Corp.)	2.3
Mass. Financial (Ltd. maturity)	2.3
SLB G/C	**1.5**

1-year returns

	%
Perpetual Advisory (Stamp)	34.9
Bell Capital (Mgd.)	28.4
Miller Anderson & Sherrerd	24.1
Seaboard Invst.	15.7
Jamison Eaton Wood	14.4
Durkee Capital (Act. quant.)	13.5
McCowan Assoc.	13.2
Furman Selz Capital	13.0
Criterion Invst. (Mort.)	12.6
Washington Square (Broad)	12.6
JCW Invst. (Value)	12.4
Loomis, Sayles-Pasadena	12.3
Atlantic Port. Analytics (A)	12.3
Fox Asset	12.3
Morgan Grenfell Capital	12.3
Bear Stearns (Mtg. backed)	12.2
Jamison Eaton Wood (Lg. public)	12.1
Executive Invst.	12.0
Capital Guardian	12.0
Legg Mason Capital (Act.)	12.0
Standish, Ayer & Wood (Act.)	12.0
Pierson Capital	11.9
Kemper Asset Mgmt. (Plus)	11.9
Gardner Preston Moss (Rel. ret.)	11.8
Miller Anderson & Sherrerd (Mtg.)	11.8
U.S. Trust of California	11.7
SLB G/C	**10.2**

5-year returns

	%
Seaboard Invst.	15.1
Bell Capital (Mgd.)	12.5
Fox Asset	12.4
Morgan Grenfell Capital	11.9
Miller Anderson & Sherrerd	11.6
Durkee Capital (Act. quant.)	10.8
Meridian Invst.	10.6
Miller Anderson & Sherrerd (Mtg.)	10.4
Capstone Asset	10.4
Washington Square (Broad)	10.3
Philadelphia Invst.	10.2
McKee Invst.	10.2
Executive Invst.	10.1
Jamison Eaton Wood	10.0
Ferguson & Wellman (Int. rate)	9.9
Dolan Capital	9.9
Bridgewater Asset (Act. dur.)	9.8
Gardner Preston Moss (Rel. ret.)	9.8
U.S. Trust of California	9.8
Furman Selz Capital	9.8
Patterson Capital (Immed.)	9.7
SLB G/C	**8.3**

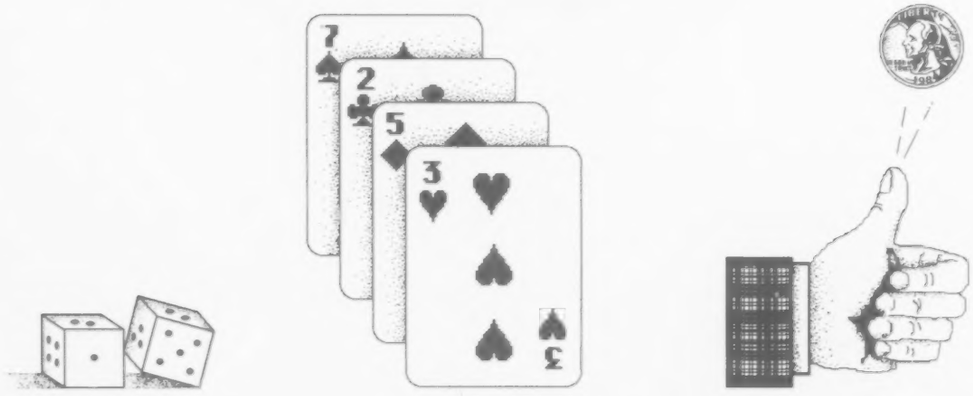
10-year returns

	%
Bridgewater Asset (Act. dur.)	18.9
Patterson Capital (Immed.)	16.7
Miller Anderson & Sherrerd	16.6
STW Fixed Inc. (Long comp.)	16.3
Morgan Grenfell Capital	16.3
Miller Anderson & Sherrerd (Mtg.)	15.9
Meridian Invst.	15.7
Smith Affiliated Capital	15.4
Rightime Econ. (Treas.)	15.3
Standish Ayer & Wood (Act.)	15.1
Wolf Webb Burk Campbell	15.1
Dolan Capital	15.0
Charles River (Act. inter. dur.)	15.0
Denver Invst. (Long term)	14.9
Consistent Asset (Total return)	14.9
SLB G/C	**13.2**

Top decile PIPER+ equity funds
3-month returns

	%
Edgar Lomax (Timing)	9.7
Westport Asset	8.6

Because your investment decisions are too important to be left to chance...



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Wilshire Asset (Sm. co. value)	6.3
Wedge Capital (Sm. cap. value)	5.5
Trinity Invst.	5.4
Pengra (Struct. demand)	5.3
Putnam Cos. (Sm. cap.)	5.1
Eagle Asset (Sm. cap.)	5.0
Fenimore Asset	5.0
Brandywine (Low p/e II/sm. cap.)	4.8
Neuberger Berman (Sm. cap.)	4.4
First Pacific Advisors (Dallas)	4.4
SunBank Capital (Income)	4.3
NFJ Invst. (Divers. low p/e)	4.0
Securities Res. (Putnam Voyager)	3.9
Goldman Asset (Segt. linked)	3.7
Wright Investor's (Sm. cap.)	3.7
Securities Res. (Kemper Summit)	3.6
IDS Advisory (Res. agg.)	3.6
Haven Capital	3.5
Standish Ayer Wood (Sm. cap.)	3.3
Sound Shore	3.3
Hotchkis and Wiley	3.2
Cohen, Davis & Marks	3.1
Equity Invst. (Growth)	3.1
General American (Closed end)	3.0
R.B. Haave Assoc.	3.0
Brandywine (Low p/e active)	2.9
Dietche & Field	2.8
American Income Plus	2.8
Cowen Asset (Inc. & gro.)	2.7
Montgomery (Sm. cap. gro.)	2.6
Nicholas Co.	2.6
Invista Capital (Cap. accum.)	2.6
Boatmen's Trust (Value plus)	2.6
TSA Capital (Act.)	2.6
Meridian Mgmt.	2.6
NFJ Invst. (Income)	2.5
Heine (Mutual shares)	2.5
Granahan Invst. (Explorer II)	2.4
Union Capital (Val. momentum)	2.4
NFJ Invst. (Sm. cap.)	2.4
Markston Invst. (MBL growth)	2.3
Pension Mgmt.	2.3
Heine (Mutual qualified)	2.3
S&P 500	**-0.2**

1-year returns

	%
Rothschild Asset (Val. growth)	41.8
Mt. Auburn Mgmt.	32.6
Cohen, Davis & Marks	28.6
Equitable Capital (Sp. gro. 3)	27.3
First Pacific (Dallas)	23.2
Beekman Capital (Growth)	22.9
Montgomery (Sm. cap. gro.)	22.5
Putnam Cos. (Sm. cap.)	22.3
Jundt Assoc. (Sm. cap.)	22.2
Wilke/Thompson (Sm. cap gro.)	21.9
Denver Invst. (Med. comp.)	21.9
Cheswick Invst.	21.4
Bear Stearns Asset	21.0
Dawson-Samberg (Gro. Pequot)	21.0
Neuberger Berman (Sm. cap.)	20.7
Rightime Econ. (Tactical)	20.5
IDS Advisory (Res. agg.)	20.5
Standish Ayer Wood (Sm. cap.)	20.2
Duncan/Hurst (Sm. cap. gro.)	19.6
Hatteras Capital	19.5
Morgan Stanley (Emerg. growth)	19.2
Capital Growth Mgmt.	19.1
SunBank Capital (Income)	18.9
Scudder Stevens Clark (Sm. co.)	18.8
Wright Investor's (Sm. cap.)	18.8
NFJ Invst. (Income)	18.5
Investment Advisers (Sm. cap.)	18.5
Granahan Invst. (Explorer II)	18.1
The Phoenix (Indiv. growth)	17.8
Brown Capital (Rel. value)	17.8
Wilke/Thompson (Growth)	17.6
Cooke & Bieler	17.0
Pacific Century (Sm cap. gro.)	17.0
Independence One	16.9
Hellman, Jordan	16.7
Galleon Capital (Gro./value)	16.7
Qualivest Capital (Agg.)	16.6
Hellman, Jordan (Acct. 25)	16.5
Severn Assoc. (I)	16.5
Pension Mgmt.	16.5
Systematic Financial (High cash)	16.4
Hutchinson Richardson	16.3
Montag & Caldwell	16.3
Provident Invst.	15.9
S&P 500	**7.4**

5-year returns

	%
Mt. Auburn Mgmt.	23.7
Kingsly Jennison McNulty Morse	22.1
Montgomery (Sm. cap. gro.)	21.2
Quantitative Asset (Enhan. index)	21.0
Cheswick Invst.	20.1
First Pacific Advisors (Dallas)	20.0
Jundt Assoc. (Sm. cap.)	19.3
WR Lazard (Growth)	19.2
Oak Assoc. (Firestone)	18.7
Hatteras Capital	18.7

Turner Invst.	18.3
Duncan/Hurst (Sm. cap. gro.)	17.9
C.H. Brown (Computer dir.)	17.8
Insight Capital (Sm. cap.)	17.8
Cowen Asset (Sm. cap.)	17.5
Dundee Partners	16.9
Institutional Capital	16.8
Friess Assoc.	16.8
Tukman Capital	16.8
Pension Mgmt.	16.7
State Street (Matrix syn.)	16.6
Bear Stearns Asset	16.6
Hellman, Jordan	16.5
Pacific Century (Sm. cap. gro.)	16.4
R.B. Haave Assoc.	16.3
Brinson Partners	16.3
Investment Counselors	16.2
Harris Bretall Sullivan & Smith	15.9
Hellman, Jordan (Acct. 25)	15.8
Argus Investors' (Lg. cap. divers.)	15.7
Systematic Financial (High cash)	15.6
UBS Asset-N.Y. (Sm. cap. value)	15.5
Investment Advisers (Sm. cap.)	15.5
J.M. Hartwell	15.5
Beekman Capital (Growth)	15.3

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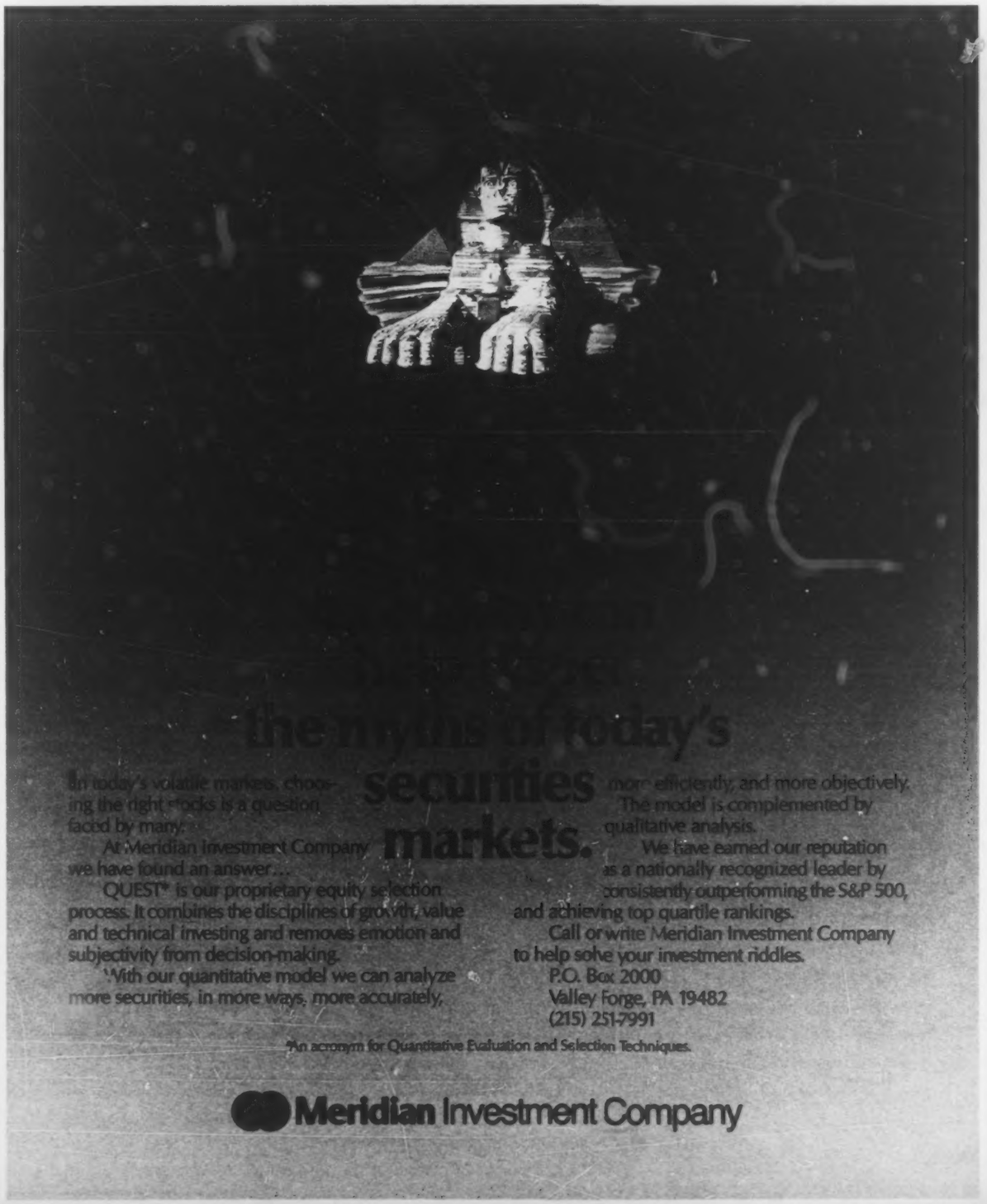

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*An acronym for Quantitative Evaluation and Selection Techniques.

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Fayez Sarofim	15.2
Capstone Asset (Agg. growth)	15.0
Analytic Invst. (Option growth)	15.0
S&P 500	**11.9**

10-year returns

	%
Pacific Century (Sm. cap. gro.)	30.0
Nicholas-Applegate (Emerg. gro.)	24.8
C.H. Brown (Computer dir.)	24.2
Quantitative Asset (Enhan. index)	23.0
Severn Assoc. (I)	22.8
Roxbury Capital	21.7
Fox Asset	21.7
Balch, Hardy & Scheinman	21.4
Ashland Mgmt.	21.2
Roger Engemann	21.1
Capital Growth Mgmt.	20.9
GAMCO Investors (ERISA)	20.8
Tom Johnson Invst.	20.7
Investment Counselors	20.5
Cadence Capital (Lg. cap.)	20.5
Columbus Circle	20.0
Caldwell & Orkin	19.9
Tukman Capital	19.8
Investment Advisers (Sm. cap.)	19.8
Hellman, Jordan	19.7
Neuberger Berman	19.7
Leylegian Invst.	19.6
Wilshire Asset (Sm. co. value)	19.5
Systematic Financial (High cash)	19.4
S&P 500	**15.6**

Top decile PIPER+ special equity funds

3-month returns

	%
Magten Asset (High yield)	16.4
Bradford & Marzec (High yield)	8.6
Waddell & Reed (High yield bond)	8.4
Baring America (High yield)	8.2
Dunnavan & Co. (Act. short sell)	7.6
S&P 500	**-0.2**
Russell 2000	**-1.6**

1-year returns

	%
Equitable Capital (Convert. 34)	31.0
Guild Invst.	30.0
Putnam Cos. (High yield)	19.4
Fidelity Mgmt. (High inc. bond)	16.8
Waddell & Reed (High yield bond)	15.8
S&P 500	**7.4**
Russell 2000	**1.2**

5-year returns

	%
Guild Invst.	37.9
NFJ Invst. (Select)	24.1
Amerindo (Emerg. gro. tech.)	17.9
Equitable Capital (Convert. 34)	14.7
S&P 500	**11.9**
Russell 2000	**3.8**

10-year returns

	%
Guild Invst.	34.7
Amerindo (Emerg. gro. tech.)	25.0
W.H. Reaves (Utility/energy)	19.6
S&P 500	**15.6**

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Russell 2000	**9.9**

Top half PIPER+ global equity funds

3-month returns

	%
AIG Global Investors	3.9
Guild Invst.	1.2
Burgess Capital	0.6
Martin Currie (A)	0.4
Marathon Asset	0.1
Stewart, Ivory (RCB/Stewart)	-0.4
Brinson Partners (World)	-0.4
Trust Co./West	-0.6
G.T. Capital	-0.7
Marvin & Palmer	-0.8
Burgess Capital (Comp.)	-1.0
Ivory & Sime Int'l (3)	-1.3
Putnam Cos.	-1.4
GIM Global	-1.5
Freedom Capital	-1.7
Scudder, Stevens & Clark	-1.8
Lexington Mgmt.	-1.8
Lombard Odier Int'l	-1.9
MSCI World	**-3.2**
FTA World	**-3.3**

1-year returns

	%
Guild Invst	19.8
Trust Co./West	6.2
Brinson Partners (World)	4.1
Martin Currie (A)	0.9
J.P. Morgan Invst.	0.0
Capital Guardian (New pers. F)	-1.2
Marvin & Palmer	-1.5
Stewart, Ivory (RCB/Stewart)	-1.7
Marathon Asset	-3.7
Scudder, Stevens & Clark	-3.8
Putnam Cos.	-3.8
FTA World	**-4.0**
AIG Global Investors	-4.2
MSCI World	**-4.3**
London Bishopsgate (En. index)	-4.5
G.T. Capital	-5.0
Burgess Capital (Comp.)	-5.2
GIM Global	-5.8
WorldInvest	-5.8

5-year returns

	%
Martin Currie (A)	17.8
Burgess Capital	17.6
Brinson Partners (World)	15.4
Stewart, Ivory (RCB/Stewart)	14.3
Marvin & Palmer	13.2
Capital Guardian (New pers. F)	13.0
Ivory & Sime Int'l (3)	12.7
Scudder, Stevens & Clark	12.7
IDS Int'l	11.7
J.P. Morgan Invst.	11.3
WorldInvest	11.2
PanAgora Asset (Tact. country)	11.0
MSCI World	**10.7**
FTA World	**10.7**
Templeton Invst.	10.6

10-year returns

	%
Burgess Capital (Comp.)	21.1
WorldInvest	18.0
Schroder Capital (X)	17.6
Putnam Cos.	17.5
Brinson Partners (World)	17.4
MSCI World	**15.7**
FTA World	**14.0**

Top half PIPER+ international equity funds

3-month returns

	%
Marvin & Palmer (Emerg. mkts.)	10.8
Gulfstream Global	2.2
Marathon Asset	1.3
Dillon, Read Int'l (EAFE)	0.8
Rowe Price-Fleming (Discovery)	0.5
Schroder Capital (Sm. cos.)	-0.3
Nikko Capital (EAFE act.)	-0.3
G.T. Capital (EAFE)	-0.5
Wellington Trust (Emerg.)	-0.7
Martin Currie (B)	-0.9
Putnam Cos.	-1.1
Marvin & Palmer Assoc.	-1.2
Brinson Partners	-1.3
Union Capital	-1.8
UBS Phillips & Drew (EAFE)	-1.8
Baillie Gifford (NCNB Texas)	-1.9
Rowe Price-Fleming	-2.0
Rowe Price-Fleming (Trp.)	-2.0
J.P. Morgan Invst.	-2.3
Kleinwort Benson Int'l	-2.4
Boatmen's Trust (W)	-2.4
Baring Int'l (Acct. 1 EAFE)	-2.5
Fiduciary Trust	-2.5
Murray Johnstone	-2.6
Pictet Int'l (Sm. cap.)	-2.6
J.P. Morgan Invst.	-2.6

PIPER+ global funds

	Periods ended June 30				
	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
First quartile	-0.74	-3.68	12.06	12.72	17.58
Third quartile	-3.68	-7.88	6.68	8.92	15.41
MSCI World	-3.24	-4.31	5.26	10.66	15.71

PIPER+ international funds

	Periods ended June 30				
	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
First quartile	-2.55	-7.71	9.63	14.02	17.21
Third quartile	-4.99	-14.19	3.95	9.31	15.67
MSCI EAFE	-5.38	-11.23	0.25	10.77	17.18

PIPER+ balanced/TAA funds

	Periods ended June 30				
	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
First quartile	1.05	11.34	13.49	11.47	15.76
Third quartile	-0.34	7.39	10.75	9.19	13.91

Lombard Odier (EAFE)	-2.7
The Principal	-2.7
Brown Brothers Harriman	-2.8
Edinburgh Wilmington	-2.8
Capital Guardian	-3.0
Waddell & Reed Asset (Growth)	-3.1
Hill Samuel/IAI	-3.1
Henderson Admin. (EAFE)	-3.3
Wright Investor's	-3.4
GIM Global Advisors	-3.4
Templeton Invst.	-3.5
G.E. Invst.	-3.5
Warburg Invst (A/C 17)	-3.5
RCB Int'l	-3.5
Schroder Capital (EAFE V)	-3.6
Citibank Invst.	-3.7
Capital Guardian (Non-U.S.)	-3.7
AIG Global (EAFE)	-3.7
Batterymarch Financial	-3.7
Matuschka & Co. (EAFE)	-3.8
Scudder, Stevens & Clark (E)	-3.9
MSCI EAFE	**-5.4**
FTA Europe & Pacific	**-5.6**

1-year returns

	%
Marvin & Palmer (Emerg. mkts.)	14.0
Murray Johnstone	2.7
Boatmen's Trust (W)	0.2
Brinson Partners	-0.3
CIGNA Int'l	-1.4
G.T. Capital (EAFE)	-3.9
Martin Currie (B)	-4.1
J.P. Morgan Invst.	-5.5
J.P. Morgan Invst.	-5.5
Provident Capital (Low p/e)	-5.9
Putnam Cos.	-6.3
Wright Investor's	-6.5
Cseh Int'l (Low p/e)	-6.8
Wellington Trust (Emerg.)	-6.9
Baillie Gifford (NCNB Texas)	-6.9
UBS Phillips & Drew (EAFE)	-7.1
Kleinwort Benson	-7.1
Baring Int'l (Acct. 1 EAFE)	-7.2
Rowe Price-Fleming	-7.2
Grantham Mayo v.Otterloo	-7.4
Gulfstream Global	-7.5
Pictet Int'l (Pos. val. uncon.)	-7.5
The Principal	-7.6
Marathon Asset	-7.8
Rowe Price-Fleming (Trp.)	-8.0
Julius Baer Invst. (Emblem)	-8.1
Hill Samuel/IAI	-8.2
Union Capital	-8.2
Nikko Capital (EAFE act.)	-8.2
Citibank Invst.	-8.3
Baring Int'l (Act./passive)	-8.4
AIG Global (EAFE)	-8.5
Lombard Odier (EAFE)	-8.6
Henderson Admin. (EAFE)	-8.9
Schroder Capital (Sm. cos.)	-9.2
Capital Guardian	-9.5
Core (ADR replicator)	-9.6
Ivory & Sime Int'l (5)	-9.7
WorldInvest (IPEF)	-9.9
Capital Guardian (Non-U.S.)	-10.1
Templeton Invst.	-10.2
Scudder, Stevens & Clark (E)	-10.2
Boston Overseas (EAFE)	-10.4
Waddell & Reed Asset (Growth)	-10.4
PCM Int'l	-10.6
Bankers Trust Invst. (EAFE)	-10.7
FTA Europe & Pacific	**-11.0**
MSCI EAFE	**-11.2**

5-year returns

	%
Ivory & Sime Int'l (3)	18.9
Boston Overseas (EAFE)	18.8
Morgan Stanley Asset	18.6
State Street (Cntry. sel. hi val.)	18.3
Templeton Invst.	17.5
CIGNA Int'l	16.8
PCM Int'l	16.3
Grantham Mayo v. Otterloo	15.3
Murray Johnstone	14.8
Provident Capital (Low p/e)	14.8
Rowe Price-Fleming (Trp.)	14.7
Cseh Int'l (Low p/e)	14.6
Brinson Partners	14.5
Batterymarch Financial	14.4
G.T. Capital (EAFE)	14.1
Kleinwort Benson Int'l	13.9
Rowe Price-Fleming	13.6
Globe Finlay (EAFE)	13.5
J.P. Morgan Invst.	13.3
Grantham Mayo v. Otterloo (Act.)	13.3
Scudder, Stevens & Clark (E)	13.3
Martin Currie (Far East)	13.0
Lombard Odier Int'l (EAFE)	12.8
Baring Int'l (Acct. 1 EAFE)	12.7
Martin Currie (B)	12.6
Putnam Cos.	12.5
Capital Guardian (Non-U.S.)	12.5
Baring Int'l (Act./passive)	12.4
Baillie Gifford (NCNB Texas)	12.3
Bankers Trust Invst.	12.1
Wellington Trust (Emerg.)	11.8
FTA Europe & Pacific	**10.9**
MSCI EAFE	**10.8**

10-year returns

	%
Grantham Mayo v. Otterloo (Act.)	21.5
Templeton Invst.	21.3
Baring Int'l (Act./passive)	18.5
Putnam Cos.	18.1
Capital Guardian (Non-U.S.)	17.4
Brinson Partners	17.4
MSCI EAFE	**17.2**
Bankers Trust Invst.	17.2
Baring Int'l (Acct. 1 EAFE)	17.1
Rowe Price-Fleming (Trp.)	17.0
FTA Europe & Pacific	**17.0**
Alliance Capital (Act.)	17.0
G.T. Capital (EAFE)	16.8
Schroder Capital	16.8

Top decile PIPER+ balanced/TAA funds

3-month returns

	%
Trinity Invst.	4.3
Haven Capital	2.9
Robert Willis Assoc.	2.9
Pension Mgmt.	2.4
CL Capital Mgmt.	2.3
McCowan Assoc.	2.2
Capital Mgmt.	2.1
Provident Capital	2.1
Radnor Capital (Act. low p/e)	2.0
Philadelphia Invst.	1.9
Spare Tengler Kaplan & Bischel	1.9
Boatmen's Trust	1.8
Godsey & Gibb Assoc.	1.8
T. Rowe Price Assoc.	1.8
Executive Invst.	1.7
Cumberland Advisors	1.7
Provident Invst.	1.6
Massachusetts Mutual (SIA-M)	1.6
Pierson Capital (II)	1.5
Fidelity Mgmt.	1.5
Bankers Trust (TAA act. mgd.)	1.5
Pine Tree Capital	1.5
Cooke & Bieler	1.5
Smith Affiliated	1.5

1-year returns

	%
Rittmann Capital	24.6
Chancellor (Stockshift 200)	23.2
Mitchell Hutchins (Growth)	19.0
J&W Seligman	18.1
Cheswick Invst.	17.9
Smith Affiliated	16.4
Denver Invst.	16.0
TSA Capital (50 stock/50 bond)	15.7
Robert Willis Assoc.	15.0
Galleon Capital	14.5
Cooke & Bieler	14.4
Brown Capital (Rel. value)	14.2
Chancellor (Stockshift 150)	14.2
Axe/Houghton	14.0
Investment Counselors	14.0
Ashfield & Co.	14.0
Institutional Capital	13.9
Northern Capital (Asset alloc.)	13.8
Independence One Capital	13.7
Kemper Asset	13.7
Munder Capital	13.5

5-year returns

	%
Oxford Capital	19.1
Chancellor (Stockshift 200)	18.0
Investment Counselors	16.0
Seaboard Invst.	16.0
Institutional Capital	15.9
Turner Invst.	15.6
Mitchell Hutchins (Asset alloc.)	15.0
Bankers Trust (TAA-act.)	14.9
Quantilogic Asset (Tact. alloc.)	14.6
Capstone Asset (Growth)	14.2
Essex Invst.	14.0
Dean Invst.	13.8
Fayez Sarofim	13.8
Ashfield & Co.	13.5
Brinson Partners (Global)	13.4
Fox Asset	13.3
Dolan Capital	13.3
Brinson Partners (U.S.)	13.3
Provident Invst.	13.1

10-year returns

	%
Rightime Econ. (Total TA)	20.4
Chancellor (Assetshift 65)	18.6
Penteq Ltd. (Stocks/cash)	18.4
Dean Invst.	18.2
Investment Counselors	18.2
Wells Fargo Invst. (3-way TAA)	18.2
Dolan Capital	18.1
J.P. Morgan Invst. (TAA)	18.0
Mellon Capital (3-way alloc.)	17.9
Institutional Capital	17.8
Caldwell & Orkin	17.8
Tom Johnson Invst.	17.8
Provident Invst.	17.7

PIPER

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have been less familiar with mortgage funds, and insurance companies have concentrated on mortgages primarily as an investment for their own accounts.

But Mr. Smith said Prudential has started marketing mortgages more aggressively as an investment. With little credit available because of savings and loan and bank problems, pension funds can get aggressive returns from mortgages now, he said.

A mortgage investor can get 160 to 200 basis points over a Treasury security of similar maturity, and about 125 basis points over a BBB bond, he said.

A different kind of fund that has done well in the long and short term is a closed-end apartment fund, John Hancock Financial Services' Special Equity Real Estate Account I fund. SERA I returned 2.3% for the quarter, 8.3% for the year, 7.1% for three years and 8.8% for five years.

The $35 million fund invests in garden apartments in cities such as Indianapolis; Kirkland, Wash.; Phoenix; and Pembroke Pines, Fla.

John Levy, an executive vice president with John Hancock, Boston, said part of the fund's success comes from repositioning its investments geographically using modern portfolio theory techniques.

PIPER tracks the performance of commingled investment funds and is compiled by Rogers, Casey & Associates, Darien, Conn. ■

Lake unveils market-neutral pooled fund

Lake Asset Management Inc. has launched a multimanager pooled fund using a market-neutral strategy, in which some securities are purchased and others sold short.

The fund, Alpha Neutral Fund L.P., began operations in July with assets of $22 million from corporate cash coffers and high-net-worth individuals. Lake would not identify the investors. New York-based Lake also is marketing the fund to pension sponsors, but none have invested thus far.

Managers for the fund are in two categories of investment style. The primary one is a pure market-neutral, long/short strategy, in which managers buy stocks they like and short those they don't, constructing long and short portfolios of roughly equal value. The secondary one is convertible bond hedging and arbitrage, in which managers buy convertible debt, preferred stock or warrants and short the common stock of the same company.

Managers in the pure long/short style are Jacobs Levy Equity Management Inc.; Weiss Global Hedge Fund; Twin Capital Management; Statistical Sciences Inc.; and Zweig/Katzen Investors. Sage Capital Management runs the convertible hedging strategy. ■

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AMI

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been drawn down so far." He said it is too early to judge the partnership's performance, but added "we're certainly not unhappy."

GKH invested $144.5 million in the company's leveraged buy-out in November of 1989. GM's pension fund invested an additional $75 million in equity in the buy-out through its investment vehicle, First Plaza Group Trust (*Pensions & Investments*, Dec. 12, 1989). Following the offerings and private equity placement, First Plaza will own 14.4% of AMI in addition to the GM pension fund's partnership stake.

AMI is one of several reverse LBOs done this year to take advantage of the strength of the stock market.

The net proceeds of the planned offerings and the private sale of stock, together with $10 million of the company's available cash, will be used to pay down AMI's $469.8 million in variable rate senior subordinated notes due 2000, a loan from MB L.P.

"By doing that we will significantly reduce interest rates, reducing interest payments by $60 million a year. This was an opportunity to delever, reduce interest expenses significantly and strengthen the balance sheet of the company," said Mel Klein, managing general partner of GKH. GKH is managed by Harry Gray, Mel Klein & Partners L.P. in Chicago, an investment partnership organized to make long-term equity and equity-related debt investments.

Mr. Gray is a former chairman and chief executive officer of United Technologies Corp. Mr. Klein formerly was a senior vice president of Donaldson, Lufkin & Jenrette Inc., New York, and a former special counsel to United Technologies. Dan W. Lufkin, a co-founder of DLJ, is a special limited partner of the fund.

Contingent on American Medical International's sale of the senior subordinated notes due 2001, the company will issue subordinated discount debentures due 2005 in exchange for a like amount of its outstanding variable rate senior subordinated discount notes due 2000, held by GM's First Plaza Group Trust.

GKH Private, with its additional private stake of about $40.5 million, will remain the largest holder, with 32.4% of the common stock. Besides the pension funds, the partnership's other investors include the Pritzker family of Chicago, American International Group, the Equitable Life Assurance Society of the United States, First Chicago Corp. and an overseas institution.

MB L.P., with its additional private stake of about $50 million, will own 14.1%.

As of Aug. 13, AMI's stock was trading at 10⅛. The original leveraged buy-out was of 80% of the common shares at 7.

AMI represents GKH Private's second investment. Its first was last May in Hanover Energy, Dallas, a company involved in the transmission of natural gas. It invested $50 million in private equity alongside former Treasury Secretary William Simon and Al Schumaker, the former chairman of First Boston.

GKH still has $300 million to invest in one or two deals and is studying making further energy investments through Hanover.

AMI appointed Robert W. O'Leary its new chairman and chief executive officer July 1, replacing Mr. Gray, who had been acting as an interim chief executive since the buy-out. Mr. O'Leary formerly was chairman of Volunteer Hospitals of America. Mr. Gray remains chairman of the executive committee.

The closing of the public stock offering and the sale of shares in the private placement are conditioned on each other. The closing of the public debt offering is conditioned on the closing of both the public and private stock sales.

About 20% of AMI's common stock will be placed outside the United States.

"The sponsors are putting more money in and asking the public to go in at the same price. It's an unusual opportunity to invest alongside sophisticated professional investors," said Phillip S. Schaeffer, senior vice president of Robert Fleming Inc., New York. His firm owns outstanding AMI senior Eurobonds, which he expects to increase in value as a result of the deals. He expects the new issue of senior subordinated notes to have a coupon of about 13.5%.

Richard Kauffman, head of equity capital markets and a managing director of First Boston, said, "when there was a refinancing of RJR, KKR bought more equity in RJR because they liked RJR and didn't want (their stake) to be diluted. That's an analogous situation to this."

Unlike RJR Nabisco Holdings Capital's $1.5 billion senior notes offering, AMI's upcoming notes issue is viewed by the marketplace as truly high yield, not borderline investment grade.

"Our indications are that there is strong interest (in AMI). The high-yield market has been very strong this year. We've seen a lot of demand for paper, almost a shortage of paper in terms of quality credits that have attractive yields . . . With the equity deal coming out just before the high-yield deal, the feeling is if the equity deal gets done, the high-yield deal will be done successfully," said Michael A. Cherry, an analyst with Merrill Lynch, Pierce, Fenner & Smith Inc., New York. Merrill Lynch & Co. is one of the firms co-managing the deals.

AMI hopes to benefit from a rally in health care stocks.

"Health care has been one of the best performing sectors in the stock market in 1991, and in a year's time AMI as a stock went from as low as over $4 to over $11 when the deal was filed," said Mr. Kauffman.

He noted the performance also reflects the popularity of "stub stocks" this year as the high-yield market has improved. Stub stocks are companies that recapitalized but left an equity piece outstanding in the highly leveraged company. Such stub stocks include AMI, The Kroger Co., RJR Nabisco Inc., Owens-Corning Fiberglas Corp. and FMC Corp., he said.

"Investors use (stub stocks) as high-octane equity because of the double benefits of leverage."

GKH executives felt two critical variables needed to be satisfied before refinancing the buy-out. The company completed a $1 billion divestiture program and received the anticipated proceeds on schedule, and the company's operating performance is on budget.

American Medical Holdings, one of America's leading hospital management companies, had a net loss of $13.7 million, or 27 cents per share, in the 10 months ended Aug. 31, 1990, on net revenue of $2.063 billion. ■

Managers

Continued from page 1
tional money managers offer specialized as well as broad-based international investing services. And, some have racked up impressive performances.

"Over the last, let's say, five years, the international managers who have had superior returns tended to be value-oriented, and value-oriented managers tended to be U.S.-based," said Jim Waterman, senior vice president of InterSec Research Corp., Stamford, Conn. In the international arena, "value methods did very well in terms of stock selection until a couple of years ago."

Some pension executives downplay the location factor. But direct or indirect issues in this area still crop up.

For the $610 million San Jose Police & Fire Department Retirement Plan and the $425 million San Jose Federated City Employees' Retirement System, location was not a key determinant when the funds chose their first international managers this year, said Edward Overton, retirement and benefits administrator for the funds. Primary issues centered on the managers' stability of personnel and their "risk-averse performance," he said.

But three of the four firms hired are U.S. based. The Police & Fire fund hired Baring International Investment Ltd., London, and GIM Global Advisors Inc., Newark, N.J.; the Employees' fund tapped PCM International Inc., Short Hills, N.J., and The Putnam Cos. Inc., Boston. The four firms split a $70 million allocation.

The funds found ample attractions in U.S.-based candidates. "The ones we looked at had had the same people in place for quite awhile, had been (in business) awhile, and were a bit more conversant with foreign markets" than were the foreign-based candidates about the U.S. market, Mr. Overton recalled.

In August 1989, the $4.1 billion Los Angeles Fire & Police Pension System hired four international managers — Oechsle International Advisors, Boston; Globe Finlay Inc., New York; Nomura Capital Management Inc. of Japan and U.K.-based Hill Samuel/Investment Advisers Ltd. (Hill Samuel has been dropped since.)

While the managers' performance hasn't diverged widely, location has somewhat influenced managers' investment choices, observed Thomas Lopez, an investment officer of the fund. Foreign firms tend to have a stronger preference for stocks from their own region than might otherwise be expected, he said. "It's just something to keep in mind" for diversification reasons, Mr. Lopez said.

Many foreign firms wishing to be competitive in the United States have in some ways tightened the communication ties — often by establishing or beefing up a U.S. office. Such trends are expected to mount.

Kleinwort Benson International Investment Ltd., London, the unit of Kleinwort Benson Investment Management Ltd. that targets North America, finds "no evidence to support the thesis" of more pension fund hirings of U.S.-based international money managers, said Richard Watt, assistant director. "That's not apparent to us at all."

According to Mr. Watt, in the past six to nine months, "more people have come through our doors from North America than in probably the last two to three years." The firm's New York office now has a staff of about 10 — about double its size some 18 months ago. One measure of the firm's success: In the past 12 months, it landed about six new separate accounts, most of which are U.S. pension funds, said Mr. Watt, who would not identify the funds.

In the United States, more managers of domestic assets consider foreign investing key to long-term survival. Not only are business growth prospects brighter in the international arena, but also at least some institutional investors deduct from domestic accounts to fund international ones.

To stem the tide and seize opportunities, increasing numbers of domestic managers have been adding international capability — either by starting it from scratch, buying a foreign firm or selling stakes to a foreign institution.

On the latter front, R. Bruce Cameron, a principal at Berkshire Capital Corp. in New York, finds "there are more U.S. firms willing to sell to foreigners than quality foreign partners looking to buy" in the United States.

Although trans-Atlantic buying and selling hasn't been robust this year, the pace should pick up. Foreign organizations expected to purchase a U.S. money manager in the foreseeable future include Swiss Bank Corp., Sumitomo Trust & Banking, Germany's Dresdner Bank and Austria's Creditanstaldt-Bankverein, Mr. Cameron said.

Many U.S. domestic managers have expanded with an international component. According to InterSec Research, the number of U.S.-based international managers with $30 million or more under management actively seeking U.S. pension business grew from 37 out of 57 firms in 1985 to 72 out of 110 firms last year. Of the 72, 54 offered U.S. domestic investment also.

As InterSec's Mr. Waterman observed, "there is a good chunk of U.S. domestic managers who have built international capability and successfully captured assets" of U.S. tax-exempt clients. Firms include Nicholas-Appelgate Capital Management, San Diego; Lehman Ark Management Co. Inc., New York; Hotchkis and Wiley, Los Angeles; and The New England Investment Cos., parent of the new Traycott Partners Ltd., London.

Said Remi Browne, managing director-international investments at Lehman Ark: "Diversifying the business — having another product line — makes sense from a business viewpoint. But in addition, since more and more analysis of U.S. equities includes analysis of foreign competitors of companies, having a more global investment perspective also makes sense."

In the fourth quarter, Lehman Ark plans to start unveiling five international investing products.

A year and a half ago, Hotchkis and Wiley began offering international investing, and it obtained funding from its first client at the end of last year.

With a total of $4 billion under management, $50 million is in international assets, said Sarah Hotchkis, portfolio manager/analyst with Hotchkis and Wiley International, a unit of the main firm. She wouldn't identify the clients, but said two are clients on the domestic side as well. ■

HIRINGS

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family of six non-overlapping, no-load mutual funds.

The foundation's assets previously were invested in bonds and government securities managed by First Tennessee Bank, Knoxville.

Texas A&M University

COLLEGE STATION, Texas — The Texas A&M University system endowment has hired five investment managers to run its $110 million portfolio.

Kevin McGinnis, financial analyst at Texas A&M, said the system hired Cisneros Asset Management Co., San Antonio, and Eagle Management & Trust, Houston, to manage fixed-income portfolios of $35 million each.

The system also hired Austin & Calvert Inc., San Antonio, to manage a $30 million equity portfolio; and Wise & Norman Inc., Houston, and INVESCO MIM Inc., Atlanta, to manage equity accounts of $5 million each.

Merrill Lynch Consulting Service, Houston, assisted in the search.

Texas Permanent School Fund

AUSTIN, Texas — The Texas Permanent School Fund with $10 billion in tax-exempt assets, has renewed its contract with First City Bank Texas-Houston, as its master trust bank.

Walter Arellano, investment officer, said the contract is renewed every two years.

He said the system conducted an internal search before deciding to retain First City.

Trans-Resources

NEW YORK — Trans-Resources, an industrial holding company, recently hired Bear Stearns Asset Management, New York, to run $15 million in an short-term fixed-income account, according to Ken Traub, assistant to the chairman. Mr. Traub declined to comment further except to say the fund has no plans to hire additional managers at this time.

United Dominion Industries Inc.

CHARLOTTE, N.C. — United Dominion Industries Inc. has overhauled its equity manager lineup as it prepares to spin off portions of its $50 million defined benefit pension plan.

United Dominion, subsidiary of Un, and Schroder Capital Management International, New York, which ran a $4 million international stock account.

About $15 million is sitting in cash, awaiting the spinoffs. The transactions will cause the pension fund to shrink to about $35 million within the next 12 months.

No consultant was used.

United Methodist Church

EVANSTON, Ill. — The $4 billion General Board of Pensions of the United Methodist Church, Evanston, has hired three investment groups in which to place the start of what will be a $50 million housing investment program.

Hired were: Community Investment Corp., Chicago; The Enterprise Foundation, Columbia Md.; and the Neighborhood Housing Service, San Francisco.

The board so far has placed a total of $8.1 million with the three, and will place more and add more firms as the program gets off the ground, according to Jerry Schmahl, portfolio accounting manager. He said the money would be used for a variety of purposes, such as bridge loans and equity stakes.

The investments bring the board's real estate allocation up near the target 15% level, Mr. Schmahl said.

Synthetic

Continued from page 3

general account of an insurance company or bank.

William Rose, director-risk insurance and retirement assets at TRINOVA Corp., Maumee, Ohio, said the company probably will add a separate fund to its $340 million 401(k) plan made up entirely of GIC synthetics as an alternative to its $320 million GIC fund starting early in 1992.

"We will probably offer it as a separate option, managed by an outside manager, and allow employees who don't want to worry about GIC issuer credits to opt into a government securities fund," the GIC synthetic.

Scott Sokol, managing director of Chambers, Dunhill, Rubin & Co., an investment banking firm in Beverly Hills, Calif., said there is a "clear movement" toward synthetic GICs. Chambers has placed more money in synthetics so far this year than in all of 1990.

"The reason plans are switching to synthetics is to enhance the credit of the portfolio," he said.

David Salvin, vice president at Bankers Trust Co., New York, said the move toward synthetics "is more like a tidal wave; it's more than a trend, it's a groundswell. It is taking place because of the concern about insurance company — and bank — credit. People have decided they need industry diversification, high credit quality and safety from market fluctuations."

Mr. Salvin, who developed the bank investment contract program at Bankers Trust, said the BIC market is dormant now. Still, Bankers placed more than $2 billion in synthetic guaranteed investments in the past 14 months.

With the synthetic alternatives, "You are not relying on Bankers Trust credit, you rely on U.S. Treasury credit," he said.

William Finley, vice president at LaSalle National Trust, Chicago, said LaSalle is actively adding synthetics to its $460 million GIC pooled trust. "We want to diversify out of the insurance and banking industries." He said the fund now contains about 30% synthetic GICs, but there is no limit on the use of the vehicles.

Not all plan sponsors favor the use of synthetic GICs. Said Halliburton's Mr. Duffield: "We've been slow to accept GIC alternatives because a lot of them use mirrors to maintain the book value accounting concept."

The company invested in a synthetic GIC product offered by Metropolitan Life Insurance Co., New York.

Several short-term bond managers say nervous plans sponsors who do not want to commit additional assets to the insurance industry now and who do not want to invest in long-term bonds or equities are finding actively managed short- to medium-term bonds a viable temporary option.

Mark Whalen, principal at Trinity Capital Advisors, a short-term manager in Charlotte, N.C., said between 25% and 30% of the nearly $125 million in new business the firm has gained this year has come from GIC funds. "We've started seeing a lot of pension money coming out of GICs."

Christopher E. Cook, marketing representative at Gabelli-O'Connor Fixed Income Management Co., Greenwich, Conn., said about 10% of his firm's $1 billion in assets represents GIC replacements. He said the firm has a short-term product specifically designed for that use.

Most GIC managers and consultants believe the move to synthetics and other options is temporary and that GICs will continue to remain the most popular option in the defined contribution market. They also believe, however, GIC management will evolve into a subset of fixed-income investing.

"We will look back at 1991 as the watershed year, the year that people finally woke up to the fact that GICs weren't immune to the same problems as fixed-income portfolios and that the same investment management techniques need to be applied," said Peter Bowles, president of Fiduciary Capital Management Inc., a Woodbury, Conn., GIC management firm. ■

IRS

Continued from page 3

"It was a planning technique that many employers found attractive and useful, and now it will be gone," Mr. Saveth said.

Restructuring "was a necessary tool that facilitated compliance," said Frank Roque, a consultant with Hewitt Associates, Lincolnshire, Ill. "The vast majority of employers that had trouble passing these tests looked at restructuring," Mr. Roque said.

One consultant estimated 20% of employers used the approach.

Restructuring maximized overall employee contribution rates and increased participation in the plans, according to Advanced Micro Devices' Mr. Schroeder.

"Restructuring clearly was a useful vehicle in maximizing the benefit for all of our employees," he said.

At Advanced Micro Devices, plan participation, which had at one time been in the 20% range, has increased to 65%, following the implementation of restructuring and a matching contribution program, Mr. Schroeder said.

"It had a definite positive impact on some of our employees, and the restructuring actually produced that," he said.

One of the reasons participation went up was the focus on geographic divisions under restructuring. Local managers felt pressure to increase participation so they could increase their own permissible contribution rates.

This would appear to contradict concerns voiced by Treasury Department officials that restructuring discouraged communication of the plans to lower paid workers, which the new rules are intended to promote.

"The real issue is how aggressive were you on restructuring," said John Woyke, principal with TPF&C, Valhalla, N.Y. "There may be some plans out there with real problems . . . I don't think there was a lot of abuse of this," he said.

While the elimination of restructuring is the most important provision of the regulations, there are other key provisions affecting collectively bargained plans and employee withdrawals.

One — requiring employees in collectively bargained plans be tested separately from non-collectively bargained employees — may complicate testing procedures for employers.

Many employers have a general plan that covers all employees, Mr. Roque said.

"For these plans they've significantly increased the administrative burden for determining nondiscrimination," he said. "It's rather bad news."

But unions are likely to be pleased with the provision exempting after-tax contributions from non-discrimination testing. While pre-tax contributions must pass the test to receive tax-favored status, passage is not necessary for the plan to be in compliance.

A change that is likely to please employers and participants is the modification of rules governing hardship withdrawals. Now employees can receive hardship withdrawals that include the amount they would have to pay in penalties and taxes on the distribution. In addition, employees can receive a hardship withdrawal for payment of tuition covering an entire year, as opposed to just the next semester or quarter as was previously allowed. ■

CORRECTIONS & CLARIFICATIONS

Continued from page 4

Three money managers misreported their assets as of Jan. 1, necessitating changes to their profiles published May 20 and resulting in each of them dropping out of the rankings of the fastest growing managers published July 8.

• **Equitable Capital Management Corp.**'s figure for tax-exempt assets reported for Jan. 1, 1987, didn't include general account assets of its parent, Equitable Life Assurance Society of the U.S., while its figure for Jan. 1, 1991, did. Equitable Capital's true figures, including the general account assets, are $23 billion as of Jan. 1, 1987, and $24 billion as of Jan. 1 1991.

• **AmSouth Bank**'s tax-exempt assets, which it reported as $8.177 billion, actually are $2.163 billion.

• **First Interstate Bank of Washington**'s total assets, which it reported as $5.2 billion, actually are $3.4 billion. Its tax-exempt assets, which it reported as $3.4 billion, are $1.2 billion.

As a result, tables accompanying the July 8 article change:

• Of the top 10 fastest growing managers with more than $10 billion in assets: Equitable Capital, which ranked third, drops out. **Copley Real Estate Advisors**, rises to 10th, growing 114.59% to $10.488 billion in 1991 from $4.7 billion in 1987.

• Of those with assets between $5 billion and $10 billion, AmSouth, which ranked seventh, drops out. **Union National Bank** rises to 10th, growing 112.59% to $5.1 billion from $2.399 billion.

• Of those with assets between $1 billion and $5 billion, First Interstate Washington, which ranked third, drops out. **Confederation Life Insurance Co.** rises to 10th, growing 328.82% to $2.509 billion from $524 million.

• Among those with the largest dollar gain overall, Equitable Capital, which ranked fifth, drops out. **Lincoln Capital Management** rises to 10th, showing a $10.488 billion growth rate.

• Of those with the largest percentage gain overall, First Interstate Washington, which ranked ninth, drops out. **Dean Investment Associates** rises to 10th, showing a 494.76% growth rate.

Fund urges full probe of scandal

By Steve Hemmerick

LOS ANGELES — Japan's powerful Ministry of Finance is reported to be impressed with the California Public Employees' Retirement System's call for a comprehensive investigation by the Japanese of that country's security trading practices.

DeWitt Bowman, chief investment officer, sent a letter to Ryutaro Hashimoto, Japan's minister of finance, detailing the $65 billion pension fund's concerns about the Japanese brokerage industry. In his Aug. 5 letter, Mr. Bowman cited his learning about "ties of the Japanese brokerage industry to organized crime and the practice of 'guaranteeing' certain preferred customers from losses." Paybacks to customers are now estimated at $1 billion.

Mr. Bowman called for a "comprehensive investigation to determine the full extent and magnitude of these practices and the implementation of strong regulations to prevent their reoccurrence."

Basil Schwan, assistant chief investment officer, said although there has been no official reply, sources told pension officials the Ministry of Finance is "impressed with our interest." He didn't identify the sources, and Mr. Bowman was unavailable for comment.

Mr. Schwan said the letter to the Ministry of Finance is out of the ordinary, but because of an "absence of regulation and appropriate overview" in the Japanese securities industry, the ministry was "the only party to really communicate with." He said he doesn't think the ministry regarded the letter as brash.

In the letter, Mr. Bowman urged "far more comprehensive steps be taken than the apologies, resignations and pay cuts announced to date." The retirement system has $1 billion invested in more than 450 major Japanese corporations.

Dewitt Bowman is seeking 'far more comprehensive' action in the Japan brokerage scandal.

Other investors in Japanese stocks also are concerned. Charles Stevens, an attorney with Coudert Brothers in Tokyo, reportedly has said some pension and mutual funds are preparing to sue their Japanese brokers. Mr. Stevens, who is in Bali, could not be reached for comment.

One operator of a mutual fund that could be considering some action is Scudder, Stevens & Clark, Boston. Scudder invests in Japan through its New Asia Fund and Japan Fund.

Asked if Scudder is considering a suit, William Blase, a vice president for corporate communications, said, "We have the situation under advisement."

California fund trustees hope to gain insight into Japanese trading practices after meeting with representatives of one of the fund's managers, Nomura Capital Management Inc., New York. Nomura is an affiliate of Nomura Securities, Tokyo, one of four Japanese brokerage houses disciplined by the Ministry of Finance for involvement in the scandal. The meeting was scheduled for Aug. 19. ■

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